

CRS Report for Congress

Saudi Arabia: Current Issues and U.S. Relations

Updated January 9, 2007

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**Prepared for Members and
Committees of Congress**

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Summary

Saudi Arabia, a monarchy ruled by the Saud dynasty, enjoys special importance in much of the international community because of its unique association with the Islamic religion and its oil wealth. 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. Saudi Arabia subsequently hosted U.S. aircraft enforcing the no-fly zone over southern Iraq. Saudi officials expressed opposition to the U.S.-led military campaign launched against Iraq in March 2003 (Operation Iraqi Freedom), although Saudi Arabia reportedly permitted certain support operations by U.S. and British military forces, in addition to making some facilities available to them. By mutual agreement, the United States withdrew virtually all its forces from Saudi Arabia at the end of August 2003.

Bombing attacks against several U.S. and foreign operated installations in Saudi Arabia have raised some concerns about security of U.S. citizens and what appears to be growing anti-Americanism in some segments of the Saudi population. Since the attacks on the United States on September 11, 2001, some commentators have maintained that Saudi domestic and foreign policies have created a climate that may contribute to terrorist acts by Islamic radicals. U.S. officials have accepted Saudi support in the aftermath of the 2001 attacks and attacks since 2003 in Saudi Arabia, including increased intelligence sharing, law enforcement activities, and tracking of terrorist financing.

In its final report, released on July 23, 2004, the U.S. National Commission on Terrorist Attacks upon the United States (the 9/11 Commission) described Saudi Arabia as having been “a problematic ally in combating Islamic extremism,” while noting that Saudi cooperation has improved, especially since further terrorist attacks in Saudi Arabia beginning in May 2003. The United States and Saudi Arabia initiated a strategic dialogue in 2005 that brings high-level officials together semiannually to discuss cooperation in six key areas: counterterrorism, military affairs, energy, business, education and human development, and consular affairs.

Principal issues likely to continue to be of bilateral interest during the 110th Congress include conflict and sectarian violence in Iraq, Iran’s nuclear program, the Saudi position on the Arab-Israeli conflict, arms transfers to Saudi Arabia, Saudi external aid programs, bilateral trade relationships and oil production, and Saudi policies on human rights and democracy. On June 9, 2006, the House adopted H.Amdt. 997 to H.R. 5522 (Foreign Operations Appropriations, FY2007); this amendment (Section 589 of the House version of H.R. 5522) would prohibit FY2007 U.S. assistance to Saudi Arabia and contained no presidential waiver provision. In the 110th Congress, H.R. 1 (Implementing the 9/11 Commission Recommendations Act of 2007) would require the Administration to report on the status of its strategic dialogue initiative with Saudi Arabia, including progress in counterterrorism cooperation and reform efforts. This CRS report will be updated as circumstances warrant.

Contents

Recent Developments	1
Background and Recent History	2
Political Development	2
U.S. Aid, Defense, and Security	3
September 11 Terrorist Attacks and Aftermath	3
Allegations	3
Saudi Responses	3
9/11 Commission Report	4
Recent Congressional Interest in Saudi Arabia	5
Joint Congressional Report	5
108 th Congress	6
109 th Congress	6
Prohibitions on Foreign Assistance	8
Current Issues in U.S.-Saudi Relations	8
Terrorism and Attacks in Saudi Arabia	8
Saudi Policies on Iraq	9
Operation Iraqi Freedom	9
Post-War Iraq: Withdrawal of U.S. Troops from Saudi Arabia	10
Infiltrators?	10
Bilateral Relations	11
Iraqi Debt	11
Regional Strategic Concerns and Sectarian Conflict	12
Arab-Israeli Conflict	13
Saudi-Palestinian Relations	14
Hamas: Pre-2006	14
Hamas: Post-Elections	15
Israel-Hamas-Hezbollah Conflict	15
Arms Transfers to Saudi Arabia	17
U.S. Arms Sales	17
Saudi-China Arms Contacts	17
Nuclear Concerns	18
Trade Relationships	19
Boycott of Israel and WTO Membership	19
Oil Production	20
Foreign Investment	21
Religious Freedom and Political Reform	22
Political Reform	23
Women's Affairs	23
Royal Succession	24
Future Succession and the Allegiance Council	24

List of Tables

Table 1. U.S. Assistance to Saudi Arabia, FY2001-FY2007	7
Table 2. U.S. Oil Consumption and Imports	20

Saudi Arabia: Current Issues and U.S. Relations

Recent Developments

On January 5, 2007, H.R. 1 (Implementing the 9/11 Commission Recommendations Act of 2007) was introduced in the 110th Congress. Section 1443 of the bill states that, “the Kingdom of Saudi Arabia has an uneven record in the fight against terrorism ... that poses a threat to the security of the United States, the international community, and the Kingdom of Saudi Arabia itself.” The bill would require the Administration to submit a report to designated congressional committees 90 days after the bill’s enactment on its strategic dialogue initiative with Saudi Arabia and the status of counterterrorism cooperation and efforts to promote reform.

After a December 2006 summit meeting in Riyadh, the Gulf Cooperation Council announced that its members plan to pursue the development of nuclear energy technology jointly in order to meet growing domestic electricity demands and preserve valuable oil and natural gas for export. Following the announcement, Saudi Foreign Minister Prince Saud al Faisal told reporters that, “nuclear technology is an important technology to have for generating power, and the gulf states will need it equally.” In January 2006, he characterized nuclear energy as “dangerous in itself.” The Saudi cabinet endorsed the GCC decision on December 12, 2006.

Ongoing sectarian conflict in Iraq raised levels of public speculation about the potential for Iraq’s Sunni Arab neighbors to intervene on behalf of Iraqi Sunni Arabs in the event of wider civil war. Scrutiny of Saudi Arabia’s position on this question intensified following the resignation of Saudi Ambassador to the United States Prince Turki al Faisal and statements from leading Saudi clerics calling on Sunnis worldwide to support Iraqi Sunni Arabs against Shiite enemies. Saudi Arabia hosted a number of prominent Iraqi religious figures at an October 2006 conference in Mecca designed to promote reconciliation between Iraq’s Sunnis and Shiites.

In October 2006, King Abdullah announced sweeping changes to the kingdom’s Basic Law that created a *Bayah* [Arabic for “Allegiance”] Council to fill the positions of king and crown prince from within the Al Saud family using established criteria. Prior succession decisions had been made informally via private family consultations. The new rules will apply after current Crown Prince Sultan bin Abd al Aziz becomes king.

In late July 2006, the Bush Administration notified Congress that it has approved over \$9 billion worth of potential U.S. military sales to Saudi Arabia. The proposed sales will support the Saudi Arabian National Guard. The 109th Congress did not act to block the potential sales.

Background and Recent History

Political Development

As the birthplace of the Islamic religion in 622 A.D. and as the home of Islam's two holiest shrines (the cities of Mecca and Medina), 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 in the centuries following the Prophet Mohammed's death, 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. In the mid-eighteenth century, an alliance developed between an influential eastern tribe, the House of Saud, and the leaders of a puritanical Islamic group known as the Wahhabi movement.¹ The Al Saud-Wahhabi alliance built two states in the Arabian peninsula during the next century that eventually collapsed under pressure from outside powers and familial rivalries.

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. Five sons have succeeded him as rulers of the third Saudi state. U.S.-Saudi relations with the modern Saudi kingdom have expanded over the years. 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 in Brief

Population (July 2006):	27,019,731 (includes 5,576,076 foreign residents) Growth rate: 2.18%
Area:	1,960,582 sq.km. (756,985 sq.mi.); just over one fifth the size of the United States
Ethnic Groups:	(native Saudis only) Arab 90%; Afro-Asian 10%
Religion:	(native Saudis only) Muslim 100% (Sunni 85-95%, Shiite 5-15%)
Literacy (2003):	78.8% (male 84.7%, female 70.8%)
GDP (2005):	\$264 billion; growth rate: 6.1%*
External Public Debt (2005):	\$36.8 billion
Inflation (2005):	0.4%
Unemployment (2004):	13% (males); some estimates range up to 25%

*Unusually high figure, largely owing to mounting oil production. A leading Saudi bank estimates 6.5% in 2005.

Sources: IMF; U.S. Dept. of Commerce; CIA World Factbook; Economist Intelligence Unit

¹ For more information about Wahhabism, see CRS Report RS21695, *The Islamic Traditions of Wahhabism and Salafiyya*, by Christopher M. Blanchard.

U.S. Aid, Defense, and Security

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.

Saudi Arabia and the United States were close allies during the Cold War, in spite of persistent differences over regional questions, the most significant of which was the Arab-Israeli conflict. The Nixon Administration considered Saudi Arabia one of the so-called “twin pillars” of Persian Gulf security (along with the Shah’s Iran), and during the Carter and Reagan Administrations, the Saudi Arabian government supported anti-Communist causes around the world in efforts that often ran parallel to or that were coordinated with U.S. policy, such as the anti-Soviet struggle in Afghanistan. The 1991 Persian Gulf War placed Saudi Arabia in the role of host for U.S. combat troops and military equipment, a role that became a lasting provocation in the eyes of Sunni Islamist extremists like Al Qaeda leader Osama Bin Laden, whose supporters have since attacked the United States and Saudi Arabia.

September 11 Terrorist Attacks and Aftermath

Allegations. The September 11, 2001, attacks kindled criticisms within the United States of alleged Saudi involvement in terrorism or of Saudi laxity in acting against terrorist groups. Many critical commentators have focused on the high percentage of Saudi nationals among the hijackers (15 out of 19), and some critics have gone as far as to accuse Saudi government officials of responsibility for the September 11, 2001, attacks through design or negligence. Others maintain that Saudi domestic and foreign policies have created a climate that may have contributed to terrorist acts by Sunni Islamist radicals. For example, some believe that the Saudi regime has fostered international terrorism by funding religious charities and education programs that propagate extreme forms of Islam and may advocate violence.² Critics of Saudi policies have also cited a multiplicity of reports that the Saudi government has permitted or encouraged fund raising in Saudi Arabia by charitable Islamic groups and foundations linked to Osama bin Laden’s Al Qaeda organization or other terrorist groups. The exiled Bin Laden is a Saudi national, but Saudi authorities revoked his citizenship in 1994.³

Saudi Responses. Saudi Arabia has denied any knowledge of or involvement with the September 11, 2001, attacks and has focused intensely on combating a domestic terrorist threat from Al Qaeda in the Arabian Peninsula, whose

² See CRS Report RS21654, *Islamic Religious Schools, Madrasas: Background*, by Christopher M. Blanchard.

³ See CRS Report RL32499, *Saudi Arabia: Terrorist Financing Issues*, by Alfred B. Prados and Christopher M. Blanchard.

members have carried out a number of attacks on civilians, government officials, and foreigners since May 2003. Saudi officials maintain that they are working closely with the United States to combat terrorism, which they say is aimed as much at the Saudi regime as it is at the United States. Saudi efforts to confront and control extremist religious beliefs and practices continue but remain complicated by the ruling regime's historically close relationship with Saudi Arabia's deeply conservative clerical establishment and the puritanical beliefs of some Saudi citizens.

U.S. government statements have generally complimented Saudi cooperation with the U.S. campaign against terrorism, while sometimes suggesting that the Saudi government could do more. In its most recent annual report entitled *Country Reports on Terrorism, 2005* (published April 28, 2006), the State Department mentioned that by the end of 2005, the Saudi government had captured or killed all 19 wanted terrorists on a list published in May 2003 and all 26 on a second list published in December 2003 (it is not clear if any of these have been double counted); government efforts continue against 36 on a third list published in June 2005. Saudi citizens have traveled to Iraq to participate in attacks on U.S. and coalition forces and Iraqis, and Saudi officials remain concerned that sectarian conflict in Iraq may create political unrest or security threats inside Saudi Arabia.

Working through the U.S. Treasury Department and State Department, the United States and Saudi Arabia have jointly designated several entities and individuals as supporters of terrorism and moved to seize their assets. Assets of some formerly suspect Saudi-based charities are scheduled to be merged into a new organization known as the Saudi National Commission for Relief and Charity Work Abroad, in an effort "to ensure that the charity of [Saudi] citizens goes to those who need it."⁴ In testimony before the Senate Judiciary Committee on November 8, 2005, U.S. Department of the Treasury official Daniel Glaser described Saudi Arabia as "one of the countries most central to our global counterterrorism efforts." He went on to summarize measures being taken by Saudi Arabia to put a stop to terrorist financing, including increased controls on the charitable sector and systemic changes in the Saudi financial sector (including controls on cash-based transactions). Glaser also stated that the Saudi government needed to live up to previous promises to crack down on donors of terrorist funds in Saudi Arabia and exert influence over international charities based in Saudi Arabia that are active abroad.⁵

9/11 Commission Report. In its final report, released on July 23, 2004, the U.S. National Commission on Terrorist Attacks upon the United States (the 9/11 Commission) described Saudi Arabia as having been "a problematic ally in combating Islamic extremism." The report takes note of long-standing cooperative relations between the U.S. and Saudi governments, growing misunderstandings at the popular level in recent years, and U.S. criticisms in the aftermath of the 9/11 attacks

⁴ The Commission was not yet operational as of January 1, 2007. In October 2006, the Saudi Ministry of Interior submitted plans for its creation to Saudi Arabia's Shura (Consultative) Council for review and consultation. According to the U.S. State Department, Saudi Arabia opened a Financial Intelligence Unit (FIU), originally chartered under 2003 anti-money laundering and anti-terrorism legislation, on September 10, 2005.

⁵ Josh Meyer, "U.S. Faults Saudi Efforts on Terrorism," *Los Angeles Times*, Jan. 15, 2006.

that Saudi officials could do more to fight terrorism. The report acknowledges increased efforts in that regard since mid-2003 when terrorists began hitting targets in Saudi Arabia itself with more frequency; today, according to the report, “The Kingdom of Saudi Arabia is now locked in mortal combat with Al Qaeda.” One of the key recommendations in the 9/11 report addresses the U.S.-Saudi relationship:

The problems in the U.S.-Saudi relationship must be confronted, openly. The United States and Saudi Arabia must determine if they can build a relationship that political leaders on both sides are prepared to publicly defend — a relationship about more than oil. It should include a shared commitment to political and economic reform, as Saudis make common cause with the outside world. It should include a shared interest in greater tolerance and cultural respect, translating into a commitment to fight the violent extremists who foment hatred.

The United States and Saudi Arabia established a strategic dialogue in 2005 to address these and other challenges, and efforts to restore and redefine U.S.-Saudi partnerships are likely to continue during the 110th Congress.

Recent Congressional Interest in Saudi Arabia

An atmosphere of skepticism about the future of U.S.-Saudi relations characterized much of the legislative discourse on Saudi Arabia in the aftermath of the September 11, 2001, terrorist attacks during the 107th and 108th Congresses. In the 109th Congress, perspectives evolved to reflect a degree of solidarity with Saudis in the face of Al Qaeda terrorist attacks inside Saudi Arabia, amid persistent concerns about Saudi counterterrorism policies, reform efforts, and positions toward Iraq and the Israeli-Palestinian conflict. During the 110th Congress, issues of mutual interest to Members of Congress and Saudi Arabian officials and citizens will likely include the conflict in Iraq, Iran’s nuclear technology development efforts, political and economic reform, and the potential revival of dormant Israeli-Arab peace processes.

107th through 109th Congresses

Joint Congressional Report. On July 24, 2003, the House and Senate Intelligence Committees released part of a 900-page report entitled Joint Inquiry into Intelligence Community Actions before and after the Terrorist Attacks of September 11, 2001 (S.Rept. 107-351; H.Rept. 107-792). The Bush Administration refused to allow the release of an approximately 28-page section of the report. According to press articles, persons who claim to have read the still-classified section of the report say it covers Saudi links with individuals involved in the September 11 attacks; specifically, the classified section reportedly states that senior Saudi officials channeled hundreds of millions of dollars to charitable groups that may have helped fund the attacks.⁶ Saudi officials, including the Saudi Ambassador to the United States, have denounced the report, maintaining that “Al Qaeda is a cult seeking to destroy Saudi Arabia as well as the United States” and questioning the logic by which

⁶ “Classified Section of Sept. 11 Report Faults Saudi Rulers,” *New York Times*, July 26, 2003.

Saudis would “support a cult that is trying to kill us?”⁷ On July 29, 2003, in response to an urgent request from Saudi Arabia, President Bush met with Foreign Minister Saud al Faisal, who called for the release of the still-classified section of the report to enable Saudi Arabia to rebut the allegations contained therein. President Bush refused to do so on the grounds that disclosure could reveal intelligence sources and methods to enemies of the United States and might compromise the on-going investigation of the September 11, 2001, attacks.⁸

108th Congress. Relevant sections of the Intelligence Reform and Terrorism Prevention Act (P.L. 108-458) captured many of the concerns reflected in the 9/11 Commission report regarding Saudi Arabia. Section 7105(a) contained findings that reviewed problems in the bilateral relationship but noted improvements in counter-terrorism cooperation between the two countries since mid-2003. Section 7105(b) expressed the sense of Congress that “there should be a more robust dialogue between the people and Government of the United States and the people and Government of Saudi Arabia.” Section 7120(b) required the President to submit to Congress within 180 days a strategy for collaboration with Saudi Arabia, as part of a larger report on U.S. government activities to implement the provisions of the act. The report was submitted in classified form in September 2005.⁹

109th Congress. The 109th Congress continued to show concern over Saudi Arabia’s role in the war against terrorism and encouraged Saudi leaders to heighten their efforts against terrorist financing. The Saudi Arabia Accountability Act of 2005 (H.R. 2037/S. 1171, proposed but not enacted), was similar to the original version introduced in the 108th Congress (H.R. 3643/S. 1888, proposed but not enacted). Like the earlier bills, the 2005 legislation would have prohibited export or issuance of an export license to Saudi Arabia for any U.S. defense articles or defense services on the U.S. munitions list or dual use items and would have restricted travel of Saudi diplomats in the United States. Section 810 of S. 600, the proposed State Department authorization bill for FY2006-2007, expressed the sense of Congress that the municipal elections held in early 2005 constituted a “positive initial step”: the bill also encouraged Saudi Arabia to permit women to vote and run for office in future elections.

U.S. Aid to Saudi Arabia and Congressional Prohibitions

U.S. foreign assistance programs for Saudi Arabia have remained a point of contention between some Members of Congress and the Bush Administration since the 107th Congress. Some Members have criticized the programs by arguing that Saudi Arabian oil revenues make U.S. assistance unnecessary or by citing security

⁷ “Saudis Slam Congressional Report Accusing Kingdom of Poor Cooperation in Terror War,” Associated Press News Wire, July 26, 2003.

⁸ “Bush Refuses to Declassify Saudi Section of Report,” *New York Times*, July 30, 2003.

⁹ House Committee on International Relations, Survey of Activities, Week of September 6, 2005: Letter Transmitting Report — September 7, 2005, CLASSIFIED, Department of State, pursuant to Sec. 7120 of the Intelligence Reform and Terrorism Prevention Act, 2004 (P.L. 108-458); Ex. Comm. 3684.

and terrorism concerns about the Saudi Arabian government's policies. Others have argued that security-related support for the Saudi Arabian government is necessary and important in order to help Saudi Arabians confront the threat of Al Qaeda terrorism in their country and to secure Saudi government support for U.S. counterterrorism priorities overseas.

A small IMET appropriation of approximately \$24,000 per year to help defray the expenses of sending Saudi officers to U.S. military service schools was resumed in FY2002 as a means of supporting reform, interoperability, and professionalism in the Saudi Arabian National Guard and other military services. The Administration requested \$24,000 in FY2006 IMET funds and \$20,000 for FY2007.¹⁰ These token amounts permit Saudi Arabia to purchase additional U.S. training at a lower cost than that which is charged to countries not eligible for IMET. The United States also provided export control and related border security funds (NADR-EXBS) to Saudi Arabia from FY2001 through FY2003 assistance for a program to improve Saudi export laws and enforcement procedures. Anti-terrorism assistance (NADR-ATA) was provided in FY2005 in the form of VIP protection courses for Saudi security officers along with counter-terrorism financing assistance (NADR-CTF). The Administration requested \$400,000 in NADR-ATA funding for Saudi Arabia for FY2007 (see **Table 1**).

Table 1. U.S. Assistance to Saudi Arabia, FY2001-FY2007
(\$ thousand)

	FY2001	FY2002	FY2003	FY2004	FY2005 ^a	FY2006 ^a	FY2007 Request
IMET	-	24	22	24	-	-	20
NADR-EXBS	10	30	80	-	-	-	-
NADR-ATA	-	-	-	-	760 ^b	-	400
NADR-CTF	-	-	-	-	200	-	-
Annual Total	\$10	\$54	\$102	\$24	\$960	-	\$420

Sources: Department of State - Congressional Budget Justifications for Foreign Operations and Country/Account Summaries ("Spigots"), available at [<http://www.state.gov/s/d/rm/rls/cbj/>].

- a. The Administration requested \$24,000 in IMET and \$100,000 in NADR-CTF funds for FY2006 but did not obligate any funds for aid to Saudi Arabia.
- b. The Antiterrorism Assistance Program Report to Congress for Fiscal Year 2005 states that \$818,000 in ATA funds were provided for Saudi Arabia in FY2005 (Appendix 4, p. 38).

¹⁰ According to the State Department's FY2007 Congressional Budget Justification, no IMET funds were obligated in FY2005.

Prohibitions on Foreign Assistance. Since 2004, several proposals to prohibit the extension of U.S. foreign assistance to Saudi Arabia have been considered and adopted by Congress. As the total amount of U.S. aid to Saudi Arabia has been relatively minuscule in recent years, the practical affect of the prohibitions has been to rescind Saudi Arabia's eligibility to purchase U.S. military and counterterrorism training at a reduced cost. The proposals have differed in their cited reasons for prohibiting aid as well as whether or not they provide national security waiver authority for the President. For example, H.R. 505, the Prohibit Aid to Saudi Arabia Act of 2005, would have imposed a ban on U.S. aid to Saudi Arabia outright and contained no waiver authority. The Consolidated Appropriations Act for FY2005 (P.L. 108-447, December 8, 2004) contained a ban on U.S. assistance to Saudi Arabia (Section 575) but provided for a presidential waiver if the President certified that Saudi Arabia was cooperating in the war against terrorism. The President issued this waiver on September 26, 2005, by Presidential Determination 2005-38.

On June 28, 2005, the House adopted H.Amdt. 379 to H.R. 3057 (the Foreign Operations Appropriations bill for FY2006) by 293-122 (Roll no. 330); this amendment added a Section 588 to H.R. 3057 prohibiting U.S. assistance to Saudi Arabia and containing no provision for a presidential waiver. The Senate version of H.R. 3057, passed on July 20, 2005, did not contain this ban. The conference report (H.Rept. 109-265, November 2, 2005) retained the ban (renumbered Section 582) but contained waiver authority if the President certified that Saudi Arabia was cooperating with efforts to combat international terrorism and that the proposed assistance would have facilitated that effort. President Bush signed the bill as P.L. 109-102 on November 14, 2005. According to the State Department, President Bush did not issue a waiver for FY2006 aid to Saudi Arabia because no FY2006 funds were obligated. On June 9, 2006, the House adopted H.Amdt. 997 to H.R. 5522 (Foreign Operations Appropriations, FY2007) by a vote of 312-97 (Roll no. 244); this amendment would prohibit U.S. assistance to Saudi Arabia during FY2007 and contained no presidential waiver provision.

Current Issues in U.S.-Saudi Relations

Terrorism and Attacks in Saudi Arabia

During the period between the two wars with Saddam Hussein, terrorists mounted attacks on U.S. military facilities in Saudi Arabia in 1995 and 1996. These were followed by a series of terrorist attacks against Saudi, U.S., and other facilities (including hotel compounds frequented by foreigners) beginning in May 2003 while decreasing to some degree since 2004. In the past, U.S. officials have criticized Saudi counterparts for insufficient sharing of information that Saudi officials have gained from their investigations of terrorist acts that have killed or injured U.S. citizens.

Press reports indicate that U.S.-Saudi cooperation in the investigation of terrorist incidents has improved since mid-2003. Both U.S. and Saudi officials have said the impetus for closer cooperation came from the May 2003 attacks, which one

knowledgeable observer described as “the inevitable wake up call” for Saudi leaders increasingly concerned over apparent attempts by terrorists to target the Saudi regime. The November bombing, which occurred after virtually all U.S. forces had left the country, may have reinforced Saudi concerns over their vulnerability to such attacks by Al Qaeda and like-minded groups,¹¹ and Saudi willingness to share information with U.S. officials. According to the 9/11 Commission’s report, “[a]s in Pakistan, Yemen, and other countries, [Saudi] attitudes changed when the terrorism came home.”

In the course of a shoot-out in June 2004, Saudi officials said they had killed Abd al Aziz al Muqrin, the then-leader of an apparent Al Qaeda affiliate known as “Al Qaeda in the Arabian Peninsula,” who had claimed responsibility or support for several terrorist acts including the May 2004 Khobar attack. Subsequent conflicting press reports indicated that Muqrin’s replacement, Saleh al Oufi, was killed by Saudi security forces and replaced by Saud al Otaibi, but a Saudi Ministry of Interior official denied this report.

On April 18, 2006, Saudi authorities announced the arrest of five men charged with an abortive attack that took place on February 24, 2006, on the world’s largest oil processing facility at Abqaiq in eastern Saudi Arabia. Saudi security forces killed 6 terrorist suspects during a shootout in Riyadh on June 23, and a further 42 terrorist suspects were arrested days later. Extremists shot and killed two security officers in Jeddah in December 2006, and 136 Al Qaeda suspects were rounded up later in the month. The incidents and arrests have sustained concerns about the terrorist threat in Saudi Arabia, in spite of statements made by King Abdullah in early June 2006 that Al Qaeda in the Arabian Peninsula had been “defeated.”¹²

Saudi Policies on Iraq

Operation Iraqi Freedom. Between the Gulf War of 1991 and Operation Iraqi Freedom in 2003, Saudi Arabia hosted U.S. Air Force units that conducted overflights to enforce a no-fly zone over southern Iraq (Operation Southern Watch). Although they did not usually object to small scale U.S. responses to Iraqi aircraft or air defense units challenging allied aircraft conducting these overflights, Saudi authorities were opposed to large-scale allied military action against Iraqi targets. Saudi Arabia opposed the U.S.-led Operation Iraqi Freedom, and on March 19, 2003 (the day President Bush initiated the campaign), a communique by then King Fahd stated that Saudi Arabia “will not participate in any way” in the war. A number of news reports, however, indicated that Saudi Arabia informally agreed to provide logistical support to U.S.-led forces: permission to conduct refueling, reconnaissance, surveillance, and transport missions from bases in Saudi Arabia; landing and overflight clearances; and use of a U.S.-built facility in Saudi Arabia known as the Combat Air Operations Center (CAOC) to coordinate military operations in the

¹¹ “U.S.-Saudi Anti-Terror Operation Planned,” *Washington Post*, Aug. 26, 2003; “A Campaign to Rattle a Long-Ruling Dynasty,” *New York Times*, Nov. 10, 2003.

¹² “Saudi King Says Al Qaeda Militants Defeated,” Reuters, June 7, 2006.

region.¹³ Also, on March 8, 2003, Saudi Defense Minister Prince Sultan bin Abd al Aziz said his government was allowing U.S. troops to use two airports in northern Saudi Arabia for “help in a technical matter.” A later report in the *Philadelphia Inquirer* on April 26, 2004, quoting unnamed U.S. and Saudi officials, alleged that Saudi Arabia had a wider role in the war than had been publicized at the time. In addition to support noted above, the officials said the Saudi royal family permitted the staging of special forces operations from inside Saudi Arabia, allowed some 250-300 mainly transport and surveillance planes to fly missions from Saudi Arabia, and provided tens of millions of dollars in discounted oil, gas, and fuel for U.S. forces.

Post-War Iraq: Withdrawal of U.S. Troops from Saudi Arabia.

Following the collapse of the Saddam Hussein regime, the *New York Times* reported on April 30, 2003, that the United States planned to withdraw almost all of its 5,000 troops in Saudi Arabia and move its Combat Air Operations Center from Saudi Arabia to neighboring Qatar. The U.S. Air Force unit to which most U.S. military personnel in Saudi Arabia had been assigned was formally de-activated on August 27, 2003. On September 22, 2003, the *New York Times* reported that the last American combat troops had left Saudi Arabia earlier in the month. Approximately 300 U.S. Army and Air Force training personnel remained in country as of May 2006.¹⁴ In September 2005, Saudi Arabia and the United States were among 12 countries participating in the biennial combined military training exercise “Bright Star” conducted in Egypt.

Infiltrators? In late August 2003, a senior State Department official commented that pro-Saddam Arab volunteer fighters were infiltrating into Iraq through Iran, Syria, and Saudi Arabia to mount attacks against U.S.-led coalition forces in Iraq. According to a *New York Times* report of April 23, 2004, quoting Saudi officials, the Saudi government has installed heat sensors to detect movement on the Saudi-Iraqi border in an effort to seal it. In late December 2004, unidentified western diplomats in Saudi Arabia reportedly said that several hundred Saudi nationals were fighting in Iraq from a total of 1,000-1,500 foreign insurgents, but went on to say that most Saudi infiltrators had come via Syria or other countries rather than directly from Saudi Arabia, which has tighter border controls.¹⁵

In a February 13, 2006, interview, then Saudi Ambassador to the United States Prince Turki al Faisal said as of mid-2005 approximately 10% of captured foreign fighters held in Iraq were Saudis. In a mid-January 2006 interview with staff from the weekly *Middle East Economic Digest (MEED)*, Prince Saud asserted that the Saudi border with Iraq “is virtually closed” but went on to criticize Iraqi, British, and U.S. officials for failing to seal the Iraqi side of the border. In November 2006, a U.S. military spokesman stated that of the approximately 1,100 foreign fighters killed

¹³ “U.S. And Saudis Agree On Cooperation,” *Washington Post*, Feb. 26, 2003.

¹⁴ The London-based International Institute for Strategic Studies in its annual publication, *The Military Balance*, 2006, p. 207.

¹⁵ *Financial Times* (London), December 20, 2004.

or captured in Iraq over the prior twelve months year, 12% were Saudi nationals.¹⁶ According to press reports, Saudi Arabia is considering plans to construct a high-tech system of fences along its entire 900-kilometer border with Iraq, but some Saudi officials have stated that the fence structures will be targeted to certain key areas rather than stretching along the entire border. Saudi Arabia reportedly has spent \$1.8 billion on strengthening its border with Iraq since 2004.¹⁷

Bilateral Relations. Some strains continue between Saudi Arabia and the post-war Iraqi regime. In a speech to the Council on Foreign Relations on September 20, 2005, Saudi Foreign Minister Saud al Faisal expressed concern over Sunni-Shiite divisions, the possibility of civil war, and the growth of Iranian influence in Iraq and commented that “we are handing the whole country [Iraq] over to Iran without reason.”¹⁸ The Iraqi interior minister rejected Prince Saud’s comments and, without naming names, implicitly criticized the Saudi regime as a dictatorship: “A whole country is named after a family.”¹⁹ Secretary of State Condoleezza Rice later commented during a Senate Foreign Relations Committee hearing that “I really think the proper role for Saudi Arabia or for any other country in the region is to help them [the Iraqis], not critique them.”²⁰ Saudi Arabia has participated in Arab League efforts to convene an Iraqi reconciliation conference since late 2005.

Iraqi Debt.²¹ As of January 2004, Iraq reportedly owed the Saudi government \$9 billion in debts incurred during the Saddam Hussein regime (mostly during the Iran-Iraq war of the 1980s), while private Saudi firms and banks hold about \$19 billion in Iraqi debt.²² Questions have been raised about whether Iraq’s debt to Saudi Arabia is subject to interest, and both parties have agreed to discuss the matter. U.S. officials have encouraged Saudi Arabia and Kuwait to forgive Iraq’s outstanding debt to support reconstruction and economic recovery efforts. The Iraq Study Group report speculated that Saudi Arabia could agree to cancel the outstanding debt as part of regional efforts to support and stabilize Iraq.²³

¹⁶ Remarks by Major General William Caldwell, Spokesman, Multinational Force-Iraq, Defense Department News Briefing, Nov. 20, 2006.

¹⁷ P.K. Abdul Ghafour, “Work on Iraq Border Fence Starts in 2007,” *Arab News*, Nov. 15, 2006; and Raid Qusti, “Kingdom Denies Plans to Build Fence on Border With Iraq,” *Arab News*, Nov. 20, 2006.

¹⁸ Robert Gibbons, “Saudi Says U.S. Policy Handing Iraq over to Iran,” Reuters, Sept. 20, 2005.

¹⁹ Suleiman al Khalidi, “Iraq Blasts Saudi Arabia for Anti-Shiite remarks,” Reuters, Oct. 2, 2005.

²⁰ Steven R. Weisman, “Rice, in Testy Hearing, Cites Progress in Iraq,” *New York Times*, Oct. 20, 2005.

²¹ For more information, see CRS Report RL33376, *Iraq’s Debt Relief: Procedure and Potential Implications for International Debt Relief*, by Martin A. Weiss.

²² Tom Everett-Heath, “Opposing Views of the Kingdom to Come,” *Middle East Economic Digest*, Jan. 23-29, 2004, p. 1.

²³ Mariam Karouny and Alister Bull, “Iraq Finance Minister Says Still No Deal on Gulf (continued...) ”

Regional Strategic Concerns and Sectarian Conflict. Like several Sunni Muslim-led regimes in the Gulf region, Saudi leaders and citizens have expressed concern about the growth of Iranian influence in the region and the influence of the empowerment of Iraq's Shiite majority population on Sunni-Shiite politics outside of Iraq.²⁴ The escalation of sectarian violence in Iraq since February 2006 and more assertive Iranian foreign policies appear to be undermining domestic support for the Saudi government's policy of restraint from intervention in Iraq. Influential figures and religious scholars in Saudi Arabia are now calling for their government and fellow citizens to provide direct political and security assistance to Iraq's Sunni Arab community and to confront what they perceive as Iranian-led Shiite ascendance in the region.

One prominent example of this trend appeared in a dramatically worded editorial published in the *Washington Post* on November 29, 2006.²⁵ The author, Nawaf Obaid, is a well known Saudi security analyst and was then a consultant to the Saudi government. The editorial created an instant debate about Saudi Arabia's intentions toward Iraq, in spite of an attached disclaimer indicating that its conclusions did not represent Saudi policy. Its conclusion drew particular attention:

To turn a blind eye to the massacre of Iraqi Sunnis would be to abandon the principles upon which the kingdom [of Saudi Arabia] was founded. It would undermine Saudi Arabia's credibility in the Sunni world and would be a capitulation to Iran's militarist actions in the region. To be sure, Saudi engagement in Iraq carries great risks — it could spark a regional war. So be it: The consequences of inaction are far worse.”

Although Saudi officials have repeatedly denied that the editorial represents Saudi policy and severed Obaid's advisory relationship with the Saudi embassy in Washington, many U.S. observers have interpreted the episode (including Prince Turki's subsequent resignation as ambassador and reports of visits to Washington by former ambassador Prince Bandar bin Sultan) as an indication of impatience and disagreement among elements of the Saudi national security establishment over the kingdom's Iraq and Iran policies.²⁶ Others have speculated that the editorial was part of an orchestrated series of warnings that an end to the Saudi policy of restraint could be forthcoming: Saudi and U.S. officials denied press reports that such a warning was given to Vice President Cheney in private during his November 2006 trip to Riyadh.

²³ (...continued)

Debt, Reuters, Aug. 1, 2006; and, ISG Report, p. 35.

²⁴ “As Saudi Visits, Bush Seeks Help on Lowering Oil Prices,” *New York Times*, Apr. 25, 2005.

²⁵ Nawaf Obaid, “Stepping Into Iraq: Saudi Arabia Will Protect Sunnis if the U.S. Leaves,” *Washington Post*, Nov. 29, 2006.

²⁶ Prince Saud al Faisal sought to reinforce this message in mid-December, stating, “Since the start of the crisis in Iraq ... the Kingdom has said it will stand at an equal distance from all Iraqi groups and does not describe itself as the guardian of any group or sect.” *Arab News* (Jeddah), “Kingdom Won't Take Sides in Iraq, Says Saud,” Dec. 20, 2006; and, Robin Wright, “Royal Intrigue, Unpaid Bills Preceded Saudi Ambassador's Exit,” *Washington Post*, Dec. 23, 2006.

Similar views have been evident in Saudi religious circles since 2003, where a number of Saudi clerics have encouraged support for insurgents and Iraq's Sunni Arab minority. In December 2006, leading cleric Salman al Awdah called "honest resistance [in Iraq] ... one of the legitimate types of *jihad*," and an October 2006 petition signed by 38 prominent religious figures called on Sunnis everywhere to oppose a joint "crusader [U.S.], Safavid [Iranian] and Rafidi [Shiite] scheme" to target Iraq's Sunni Arab population.²⁷ Anti-Shiite sectarian rhetoric has been a consistent feature of statements on Iraq and Saudi affairs from other Saudi clerics, including Nasser al Omar and Safar al Hawali.²⁸ Confrontation with these religious figures over their remarks and activities poses political challenges for the Saudi government, since some of them, such as Al Awdah and Al Hawali, have supported government efforts to de-legitimize terrorism inside the kingdom and have sponsored or participated in efforts to religiously re-educate former Saudi combatants.

Arab-Israeli Conflict

Saudi Arabia supports Palestinian national aspirations, strongly endorses Muslim claims in the old city of Jerusalem, and was increasingly critical of Israel during the Palestinian uprising in the occupied West Bank and Gaza that began in September 2000. Unlike several other Gulf countries, Saudi Arabia has not established trade or liaison channels for communication with Israel. At the same time, Saudi Arabia has supported U.S. policy by endorsing Israeli-Palestinian peace agreements, 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, and adopted a more pro-active approach to peacemaking. In March 2002, then Crown Prince Abdullah proposed a peace initiative calling for full Israeli withdrawal from occupied territories in return for full normalization of relations between Arab states and Israel. The plan was endorsed by the Arab League at a summit conference in Beirut on March 27-28, 2002 and used as a basis of discussion between then Crown Prince Abdullah and President Bush at a bilateral meeting in April 2002.

Over a year later, on June 3, 2003, President Bush, then Crown Prince Abdullah, and four other Arab leaders met at Sharm el Shaykh, Egypt, where the attendees endorsed the Road Map — a phased plan for Palestinian-Israeli peace promulgated by the United States, the United Nations, Russia, and the European Union (the "Quartet"). At a second bilateral meeting between President Bush and then Crown Prince Abdullah in Texas on April 25, 2005, a joint statement by the two leaders contained the following: "With regard to the Palestinian-Israeli conflict, the United

²⁷ Al Awdah's comments were made at the "Conference for Supporting the Iraqi People" in Ankara, Turkey. OSC Document - GMP20061211837002, Dec. 10, 2006.

²⁸ Both clerics signed the October 2006 statement. Al Awdah did not: he has been outspoken in his criticism of Iranian intervention in Iraq, but at times has spoken out against Sunni-Shiite conflict on his website: [<http://www.islamtoday.net/>]. See "Saudi Shaykh Al-Awdah Warns of Sectarian War in Iraq, Holds US Responsible," OSC Document - GMP20061107866002, Nov. 5, 2006. Al Omar in particular is known for his blunt condemnations of Shiites: see, for example, his 2003 memorandum, "The Reality of Al Rafidah [derogatory term for Shiites] in the Land of Monotheism."

States and the Kingdom of Saudi Arabia desire a just, negotiated settlement wherein two democratic states, Israel and Palestine, live side by side in peace and security.”²⁹

Saudi-Palestinian Relations. Saudi Arabia, like other Arab states, recognizes the Palestine Liberation Organization (PLO) as the legitimate representative of the Palestinian people. Prior to the election of the current Hamas-led government, Saudi support (estimated at \$80 million to \$100 million per year) was provided exclusively to the Palestinian Authority (PA), which was established under the Israeli-Palestinian agreement of September 13, 1993, known as the first Oslo Accord.³⁰ Saudi Arabia also provided aid (variously estimated at \$33 million and \$59 million) to families of Palestinians killed or injured in the Palestinian uprising that began in September 2000; in addition, Saudis raised additional funds (over \$100 million according to one report) for this purpose at a telethon sponsored by then King Fahd on April 11, 2002.³¹ During then Crown Prince Abdullah’s visit with President Bush in Crawford, Texas on April 25, 2005, Secretary of State Rice told reporters she had discussed with the crown prince “the need for everyone to support, including financially, the Palestinians as they move forward.”

Hamas: Pre-2006. There have been unsubstantiated reports of Saudi assistance to the PLO’s principal rival organization, the fundamentalist Hamas organization, which the U.S. government has designated as a foreign terrorist organization. In its most recent annual report on terrorism, the State Department noted that Hamas receives some funding from Iran, but “primarily relies on donations from Palestinian expatriates around the world and private benefactors in Saudi Arabia and other Arab states.”³² It adds that some Hamas fund raising activity takes place in Western Europe and North Africa. The State Department reports do not estimate amounts involved. According to one 2003 press report, at one time, people in Saudi Arabia contributed approximately \$5 million to Hamas per year, or approximately half of its pre-governing annual operating budget.³³ Past reports

²⁹ Available at the following website: [<http://www.whitehouse.gov/news/releases/2005/04/print/20050425-8.html>].

³⁰ “Flow of Saudi Cash to Hamas Is Under Scrutiny by U.S.,” *New York Times*, Sept. 17, 2003.

³¹ Saudi officials told U.S. counterparts in late April 2002 that proceeds of the telethon were 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 under Saddam Hussein, which paid families who would sacrifice their children as suicide bombers. For more information on Saudi payments to families of Palestinians killed in the Palestinian uprising or imprisoned by Israeli authorities, see CRS Report RL32499, *Saudi Arabia: Terrorist Financing Issues*, by Alfred B. Prados and Christopher M. Blanchard.

³² Country Reports on Global Terrorism, 2005, published Apr. 28, 2006.

³³ Don Van Natta, Jr., with Timothy L. O’Brien, “Flow of Saudis’ Cash to Hamas Is Scrutinized,” *New York Times*, Sept. 17, 2003. The report cites American law enforcement officials, American diplomats in the Middle East, and Israeli officials. In addition, Saudi Arabia contributed \$1.8 million in 2004 to the U.N. Relief and Works Agency (UNRWA), the U.N. Agency that provides services to Palestinian refugees in the Middle East; in
(continued...)

indicated that Saudi authorities tolerated fund raising for Hamas. For example, in May 2002, Israeli officials, citing captured Palestinian documents, said the Saudi government had given money to 13 charities, seven of which provide support to Hamas. Then Saudi government spokesman Adel al Jubeir maintained that “no Saudi government money goes to Hamas, directly or indirectly.”³⁴

Hamas: Post-Elections. The January 2006 Palestinian elections in which Hamas secured a majority of seats in the Palestinian parliament has raised new questions regarding Saudi relations with Hamas. In a meeting with U.S. Secretary of State Condoleezza Rice on February 22, Prince Saud rejected the U.S. position that countries should cut off aid to the Palestinian Authority until a Hamas-dominated government renounces violence and accepts Israel’s right to exist. Prince Saud commented that “[w]e wish not to link international aid to the Palestinian people to considerations other than their dire humanitarian need.” The Prince called for continuation of the peace process, but Secretary Rice questioned “[h]ow do we keep a peace process alive if one of the parties [Hamas] is not committed to peace?” On March 19, 2006, Prince Saud reiterated his position, saying that “humanitarian assistance is not given to a government. It is given to a people ...” to help them deal with a difficult humanitarian situation. In late July 2006, the Saudi Arabian government announced plans to transfer \$250 million in reconstruction assistance “to the Palestinian people” and confirmed the transfer of half of a \$92 million budgetary support pledge for the Palestinian Authority.

Israel-Hamas-Hezbollah Conflict. Cross-border raids by Hamas and Hezbollah against Israel and ensuing Israeli military operations in the Gaza Strip and Lebanon during the summer of 2006 and since have created significant foreign policy challenges for the government of Saudi Arabia. On the one hand, Saudi leaders have felt compelled to condemn destabilizing military operations taken by non-state actors that have pushed the region to the brink of direct conflict. On the other hand, strong popular opinion and official support for the Palestinian and Lebanese governments and civilians have counseled opposition to the Israeli military response and criticism of international parties, including the United States, that oppose cease fire agreements. Other factors include the role of Syria and Iran as state sponsors and suppliers of Hezbollah and Hamas.

Saudi government efforts to overcome these challenges were evident in public statements and actions taken in response to the original outbreaks of violence. After initially criticizing the Lebanese militia Hezbollah for their July 12 raid across the Israel-Lebanon border, Saudi officials joined with their Egyptian and Jordanian

³³ (...continued)

addition, Saudi Arabia provided \$21 million in 2005 in response to an emergency appeal by UNRWA.

³⁴ Don Van Natta, Jr. with Timothy L. O’Brien, “Flow of Saudis’ Cash to Hamas Is Scrutinized,” *New York Times*, Sept. 17, 2003. According to a later report, Saudi Arabia has been giving \$15 million a month to the Palestinian Authority. Joel Brinkley, “Saudis Reject U.S. Request to Cut Off Aid to Hamas,” *New York Times*, Feb. 23, 2006. See also CRS Report RL32499, *Saudi Arabia: Terrorist Financing Issues*, by Alfred B. Prados and Christopher M. Blanchard.

counterparts to place the blame for the eruption of conflict in Lebanon on Hezbollah. Saudi Foreign Minister Prince Saud al Faisal and National Security Council chief and former Ambassador to the United States Prince Bandar bin Sultan visited Washington, D.C. on July 23 to consult with President Bush and other U.S. officials about the ongoing crisis. In a private meeting with the president and Secretary of State Condoleezza Rice, the Saudi officials reportedly delivered a letter from King Abdullah bin Abdulaziz requesting U.S. support for an immediate cease fire.

Following Israeli military attacks inside Lebanon that killed hundreds of civilians and damaged critical infrastructure, Saudi Arabian leaders voiced pointed criticism and condemnation of Israel. On July 25, the Saudi cabinet released a statement warning “that if the Israeli military savagery continues to kill and destroy, no can predict what would happen” and “that, should the option of peace fail as a result of the Israeli arrogance, only the option of war will remain.”³⁵ This was interpreted variously by regional observers as a warning of the potential shared consequences of broader escalation or a signal of Saudi willingness to abandon the so-called Abdullah plan for a two-state solution and wider Arab peace with Israel.

After an Israeli military strike on the Lebanese town of Qana killed more than 50 civilians, a July 31 Saudi cabinet statement cited “the moral, political, and material responsibility of Israel for massacres and war crimes” and pledged “the Kingdom’s standing with all its political and economic capabilities by the brotherly people of Lebanon.”³⁶ Then Saudi Ambassador to the United States Prince Turki al Faisal summarized the double-edged Saudi position in public comments in Washington, saying, “Saudi Arabia holds firmly responsible those who first engaged in reckless adventure under the guise of resistance [Hamas and Hezbollah],” adding that the groups’ “unacceptable and irresponsible actions do not justify the Israeli destruction of Lebanon or the targeting and punishment of the Lebanese and Palestinian civilian populations.”³⁷

The Saudi government’s rhetorical support for Lebanon has been matched with financial and material support: the government has pledged over \$1.5 billion in financial assistance to the Lebanese government and has organized a popular relief campaign under the auspices of the Minister of Interior Prince Nayef bin Abdulaziz. The announced assistance will consist of a \$500 million grant to the Lebanese people as the “core” of a planned Arab-international reconstruction fund and a \$1 billion deposit in the Central Bank of Lebanon to support the Lebanese economy. Some observers have noted that the large donations may be meant to signal to other Arab states and Iran that the Saudi Arabian government, known for its close political and financial ties to Lebanon, plans to assume the central role in underwriting Lebanon’s recovery from the current crisis. In late December 2006, Saudi Arabia hosted

³⁵ “Saudi Arabia’s Royal Court Issues Statement On Situation in Lebanon,” *al-Ikhbariyah Satellite Channel* (Riyadh), OSC Document FEA20060725025650, July 25, 2006.

³⁶ *Saudi Press Agency*, “King Abdullah Chairs Cabinet Session,” July 31, 2006.

³⁷ Prince Turki al-Faisal, Remarks to the New American Foundation, Washington, D.C., July 31, 2006.

representatives of Hezbollah in a reported effort to defuse the political crisis ongoing in Lebanon.³⁸

Arms Transfers to Saudi Arabia

U.S. Arms Sales. The United States has long been Saudi Arabia's leading arms supplier. During the eight-year period from 1998 through 2005, U.S. arms *ordered* by Saudi Arabia amounted to \$9.3 billion while U.S. arms *delivered* to Saudi Arabia amounted to \$17.9 billion, reflecting earlier orders. An upsurge in Saudi arms purchases from the United States in the early 1990s was due in large measure to the Iraqi invasion of Kuwait and its aftermath. The largest recent sale was a \$9 billion contract for 72 F-15S advanced fighter aircraft, signed in May 1993. Saudi arms purchase figures include not only lethal equipment but also significant amounts of support services and construction. 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 strained finances.

Rising oil prices, increased regional tensions, and counterterrorism requirements have led Saudi defense and security officials to reassess their defense needs in light of recent developments. In late July 2006, the Bush Administration notified Congress that it has approved a number of potential U.S. military sales to Saudi Arabia that could be worth over \$9 billion.³⁹ The proposed sales are mainly designed to support the Saudi Arabian National Guard and may ultimately include 24 Black Hawk helicopters, 724 light armored vehicles, 2,300 long-range radio systems, night vision goggles, thermal weapon sights, and other equipment. A number of planned equipment re-manufacture and upgrade sales are also part of the proposed package, including modifications for Apache attack helicopters, the transfer of 58 M1A1 Abrams tanks, and their upgrading along with 315 M1A2 Abrams tanks already in Saudi possession. The 109th Congress did not take any steps to block the proposed sales.

Saudi-China Arms Contacts. In 1988, shortly before the end of the Cold War, Saudi Arabia concluded a controversial purchase of approximately 30 intermediate range CSS-2 missiles from China, in its first and only major arms purchase from a communist (or formerly communist) state. A Reuters news wire report of February 15, 2004, quoted unnamed U.S. officials as voicing concern over continued alleged cooperation between China and Saudi Arabia on missiles; the report did not provide details. On the following day, the Saudi Press Agency said a responsible source at the Saudi Defense Ministry denied the report, which a defense spokesman described as "fabricated and baseless."

³⁸ Jumana Al Tamimi, "Saudi Bid to Solve Lebanon Deadlock," *Gulf News* (Dubai), Jan. 3, 2007.

³⁹ Defense Security Cooperation Agency, Transmittals No. 06-25, 06-26, 06-31, 06-36, and 06-39, July 2006. Available at [http://www.dsca.mil/PressReleases/36-b/36b_index.htm]

Nuclear Concerns

There have been occasional questions in the past about possible Saudi nuclear cooperation with other states. For example, according to press reports in 1999, U.S. officials were concerned over a visit by the Saudi Defense Minister to nuclear and missile facilities in Pakistan, but had received assurances from Saudi officials that Saudi Arabia was not seeking nuclear weapons or other weapons of mass destruction. Later, a *Washington Times* article of October 22, 2003, citing “a ranking Pakistani insider,” reported that Saudi Arabia and Pakistan had concluded a secret agreement on nuclear cooperation, under which Pakistan would provide Saudi Arabia with nuclear technology in return for oil at reduced prices. A State Department spokesman said the Administration had seen the reports but did not have any information to substantiate them.

Saudi Arabia has been negotiating a full-scope safeguards agreement with the International Atomic Energy Agency (IAEA).⁴⁰ On June 16, 2005, the IAEA approved a Small Quantities Protocol (SQP) for Saudi Arabia; this protocol exempts countries with minimal quantities of nuclear materials and facilities from routine inspections and declarations. It is not clear whether the IAEA will require Saudi Arabia to conclude an Additional Protocol, which could give the IAEA more leverage for inspections. IAEA Director General Muhammad ElBaradei has called the SQP a “weakness” in the nuclear safeguard regime, and the United States and some western nations are concerned that it does not provide sufficient transparency in the case of Saudi Arabia. A Saudi official reportedly told European officials that Saudi Arabia would provide additional information to the IAEA only if all other parties to the protocol did the same.⁴¹

Saudi Arabia has expressed concern about Iranian nuclear development activities and sent mixed messages about its future plans to develop and use nuclear energy technologies during 2006. In a January 2006 interview with the *Middle East Economic Digest*, Saudi Foreign Minister Prince Saud al Faisal said “we are not going to pursue any of these [nuclear] weapons,” and went on to comment that nuclear power “is dangerous in itself.”⁴² Since then, Saudi officials, including Prince Saud al Faisal, have sought assurances directly from Iranian officials about Iran’s plans to develop nuclear energy facilities and the steps Iran may be taking to prevent potential environmental damage or conflict that could affect the wider Persian Gulf region.

After a December 2006 summit meeting in Riyadh, the Gulf Cooperation Council announced that its members plan to pursue the development of nuclear energy technology jointly in order to meet growing domestic electricity demands and preserve valuable oil and natural gas supplies for export. Following the announcement, Prince Saud al Faisal told reporters that “nuclear technology is an

⁴⁰ Background information and details on Saudi Arabia’s relationship with the IAEA are available at [<http://ola.iaea.org/factSheets/CountryDetails.asp?country=SA>].

⁴¹ George Jahn, “Saudi Arabia Exempt From Nuke Inspections,” *Guardian*, June 16, 2005.

⁴² Richard Thompson, “Returning to Form,” *Middle East Economic Digest*, Jan. 27, 2006.

important technology to have for generating power, and the gulf states will need it equally ... It is not a threat ... It is an announcement so that there will be no misinterpretation for what we are doing. We are not doing this secretly. We are doing it openly.”⁴³ A U.S. State Department spokesperson emphasized that since the GCC announcement related to “an intention to develop peaceful nuclear energy,” it should be considered differently from the alleged pursuit of nuclear weapons capabilities by Iran.⁴⁴ The Saudi cabinet endorsed the GCC decision and stated that “possessing nuclear technology for peaceful purposes has economic and scientific significance.”⁴⁵

Trade Relationships

Saudi Arabia was the largest U.S. trading partner in the Middle East in 2005. For that year, Saudi exports to the United States were estimated at \$26.2 billion (up from \$20.4 billion in 2004) and imports from the United States at \$5.6 billion (up from \$4.7 billion). Comparable figures for Israel, the second largest U.S. trading partner in the Middle East in 2005, were \$16.9 billion in exports to the United States and \$9.7 billion in imports from the United States. Through September 2006, Saudi imports from the United States were at \$5.7 billion and exports to the United States were at \$24.6 billion. To a considerable extent, this high volume of trade is a result of U.S. imports of hydrocarbons from Saudi Arabia and U.S. arms exports of arms, machinery, and vehicles to that country.

On September 9, 2005, the U.S. Trade Representative (USTR) announced that the United States and Saudi Arabia had completed bilateral negotiations on terms of Saudi accession to the World Trade Organization (WTO). On November 10, President Bush signed a memorandum to the USTR noting that Saudi Arabia had concluded a bilateral agreement with the United States related to Saudi accession to the WTO.⁴⁶ In the meantime, the press noted that Saudi Arabia had concluded bilateral negotiations with all other interested WTO members, and on December 11, Saudi Arabia became the 149th member of the WTO.⁴⁷

Boycott of Israel and WTO Membership.⁴⁸ Some Members of Congress have raised questions regarding Saudi Arabia’s participation in the Arab League boycott of Israel in light of the conclusion of a bilateral agreement with the United

⁴³ Hassan M. Fattah, “Arab Nations Plan to Start Joint Nuclear Energy Program,” *New York Times*, Dec. 11, 2006.

⁴⁴ See transcript of State Department Press Briefing for December 11, 2006, available at [<http://www.state.gov/r/pa/prs/dpb/2006/77619.htm>].

⁴⁵ P.K. Abdul Ghafour, “Nuclear Energy Is Needed, Says Cabinet,” *Arab News* (Jeddah), Dec. 12, 2006.

⁴⁶ Full text in Federal Register, Vol. 70, No. 219, Nov. 15, 2005.

⁴⁷ For more background, see American Association of Exporters and Importers, “Saudi Arabia’s WTO Accession,” Vol. 105, No. 46, Nov. 22, 2005.

⁴⁸ For background, see CRS Report RS22424, *Arab League Boycott of Israel*, by Martin A. Weiss.

States on Saudi Arabia's WTO accession. On April 5, 2006, the House passed H.Con.Res. 370, which expresses the sense of Congress that Saudi Arabia should fully live up to its WTO commitments and end all aspects of any boycott on Israel. Under the terms of the agreement with the United States, Saudi negotiators confirmed that Saudi Arabia would not invoke the non-application provision of the WTO Agreement toward any fellow WTO member (which would prohibit enforcement of the boycott) and confirmed the kingdom would not enforce the secondary and tertiary Arab League boycotts. However, in June 2006, then-Saudi Ambassador to the United States Prince Turki al Faisal reportedly stated that the Government of Saudi Arabia plans to continue to enforce the Arab League's primary boycott of Israel, drawing criticism and inquiries from some Members of Congress. Prince Turki reportedly commented that "the primary boycott is an issue of national sovereignty guaranteed within the makeup of the WTO and its rules," and indicated that the Saudi government had already made its decision clear to the United States Trade Representative's office (USTR). A USTR spokesman was quoted as saying that "in [USTR's] view, maintaining the primary boycott of Israel is not consistent with Saudi Arabia's obligation to extend full WTO treatment to all WTO Members."⁴⁹ January 2007 press reports quoted the Director General of the Saudi Customs Service, Saleh Al-Barak, as saying that goods manufactured in Israel could not be legally imported into Saudi Arabia.⁵⁰

Oil Production. With the world's largest proven oil reserves (estimated at 261.7 billion barrels in January 2001), Saudi Arabia produced approximately 9.5 million barrels per day (bpd) of crude oil as of October 2005. Approximately 11.3% of U.S. oil imports and 7.4% of total U.S. oil consumption came from Saudi Arabia during 2004. Formerly the largest foreign supplier of oil to the United States, Saudi Arabia has been exceeded in this role by Canada, Mexico, and/or Venezuela during recent years (see **Table 2**).

Table 2. U.S. Oil Consumption and Imports

(in millions of barrels per day)

Category	2002	2003	2004	2005
Total U.S. Consumption	19.761	20.034	20.731	20.587 ^a
Total U.S. Imports	11.530	12.264	13.145	13.527
Imports from Saudi Arabia	1.552	1.774	1.558	1.523
Imports from Canada	1.971	2.072	2.138	2.172
Imports from Mexico	1.547	1.623	1.665	1.646
Imports from Venezuela	1.398	1.376	1.554	1.506

Source: U.S. Department of Energy, Annual Energy Review 2005, Report No. DOE/EIA-0384(2005), July 27, 2006: Table 5.4 - Petroleum Imports by Country of Origin, 1960-2005, available at [http://www.eia.doe.gov/emeu/aer/pdf/pages/sec5_11.pdf].

a. 2005 U.S. consumption figure based on first 11 months of 2005.

⁴⁹ Michael Freund, "Saudi Ambassador to U.S. Admits Boycott of Israel Still in Force," *Jerusalem Post*, June 22, 2006; and, Freund "U.S. Official Under Fire Over Saudi Flap," *Jerusalem Post*, June 25, 2006.

⁵⁰ "Ban on Israeli Goods in Place: Customs Chief," *Arab News* (Jeddah), Jan. 4, 2007.

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. This band eroded in subsequent years as oil prices continued to rise to more than \$50 per barrel, and in follow-up comments after the April 25, 2005, meeting between President Bush and then Crown Prince Abdullah, the crown prince’s foreign policy advisor said the \$22-\$28 price band has become unrealistic.⁵¹ The foreign policy advisor went on to say that Saudi Arabia has a limited spare capacity of approximately 1.3 to 1.4 million bpd for increased production. During the April 2005 visit, Saudi officials proposed a long-range plan to deal with fundamental issues of supply and demand, indicating that they would aim for production levels of 12.5 million bpd by the end of the current decade and 15.0 million bpd over time. Recent declines in global oil prices have led OPEC members to call for further cuts in production to support price stability.

Foreign Investment. Saudi leaders, notably King Abdullah, have shown increasing interest in attracting foreign investment, especially in their country’s energy sector. Oil exploration and production remain generally off limits to foreign investment; however, with the world’s fourth largest natural gas reserves (235 trillion cubic feet), Saudi Arabia is emphasizing foreign participation in the country’s gas sector. In 2001, Saudi Arabia signed three preliminary agreements worth approximately \$25 billion with eight international oil companies (including six U.S.-based companies) to develop three natural gas fields. Conclusion of final agreements met continuing delays as Saudi and company negotiators tried to resolve several issues, including taxes, rate of return on investments, and size of gas reserves being offered.

Eventually, in mid-2003, negotiations collapsed, and Saudi officials began pursuing a different approach involving smaller, less ambitious projects of more limited scope. Tenders were issued on September 15, 2003 for three new contract areas. One U.S. company, Chevron-Texaco, submitted bids for all three; however, it was unsuccessful in obtaining any of the contracts. Saudi Oil Minister Ali al Naimi and other officials said the bids were assessed strictly in accordance with the terms offered by the various companies, although some unnamed observers suggested that the bidding process was structured in a way that favored non-U.S. competitors. Still other observers suggested that the awards reflect Saudi desire to cement economic ties with Russia, China, and other third countries, and one energy expert noted that “[t]he Saudis are clearly shifting around and looking to different parts of the world.”⁵²

⁵¹ In February 2006, Saudi Oil Minister Ali Naimi said current conditions would support a price of approximately \$50 per barrel, and some Saudi officials spoke of a \$40-\$50 price range. *The Oil Daily*, Feb. 8, 2006.

⁵² Karen Matusic, “Saudis Extend Geopolitical Base with Gas Deals,” *The Oil Daily*, Feb. 2, 2004; Simeon Kerr, “Saudi Arabia Strikes Hard Bargain On Gas Rights,” *Dow Jones, Emerging Markets Report*, Jan. 29, 2004.

In the meantime, several U.S. companies are involved in new or projected Saudi operations. ExxonMobile and ChevronTexaco are among several international oil companies that the Saudis have approached regarding their plans to build a large export refinery at the port of Yanbu, potentially worth \$5 billion. In addition, in March 2005, the Saudis awarded a contract to another U.S. company, Bechtel, as part of a joint venture to develop three on-shore oil fields in eastern Saudi Arabia at a potential cost of \$3 billion.⁵³

Saudi-Chinese Commercial Contacts. Saudi-Chinese commercial relationships continue to expand. Bilateral trade peaked at \$15 billion in 2005, after a 41% growth per year since 1999, according to the Chinese Ministry of Commerce. A visit by King Abdullah to Beijing in January 2006 was reciprocated by Chinese President Hu Jintao on April 22, and the two leaders reportedly signed a series of agreements including energy exploration and security collaboration. Commentators note that Chinese economic ties are attractive to Saudi leaders because they come with “no strings attached” and focus on economic rather than political issues.⁵⁴

Religious Freedom and Political Reform

The State Department’s 2004 Report on International Religious Freedom (September 15, 2004) designated Saudi Arabia for the first time as a “Country of Particular Concern.” Saudi Arabia was again so designated in the most recent annual report published on September 16, 2006, but the report acknowledged steps that King Abdullah has taken to meet U.S. concerns. Of particular concern to Westerners are pervasive restrictions on women’s activities⁵⁵ 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 Shiite Muslim community in Saudi Arabia, estimated at 500,000 or more persons mainly in the Eastern Province.⁵⁶ Discrimination against the mystic-oriented Sufi sects, long opposed by the Saudi regime, has reportedly eased in the last few years.⁵⁷ 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; however, the State Department notes that Saudi officials do not always follow these

⁵³ “Small Steps Forward,” *Middle East Economic Digest*, Apr. 22-28, 2005, pp. 42-44; “Sultans of Swing,” *Middle East Economic Digest*, May 6-12, 2005, pp. 4-5.

⁵⁴ “Avoiding Political Talk, Saudis and Chinese Build Trade,” *New York Times*, Apr. 23, 2006.

⁵⁵ U.S. Under Secretary of State for Public Diplomacy Karen Hughes encountered mixed reactions from a group of Saudi women with whom she discussed restrictions on women’s rights on a recent trip to the Middle East. Steven R. Weisman, “Saudi Women Have Message for U.S. Envoy,” *New York Times*, Sept. 28, 2005.

⁵⁶ Since 1990, the Saudi government has moved quietly to ease some restrictions on Shiites. A petition presented by Saudi Shiite representatives was followed by an audience with then Crown Prince Abdullah on April 30, 2003, indicating that both the government and the Shiite petitioners may be seeking to pursue a more cooperative approach.

⁵⁷ Faiza Saleh Ambah, “In Saudi Arabia, a Resurgence of Sufism,” *Washington Post*, May 2, 2006.

guidelines in practice and have not provided specific guidelines to determine what constitutes private worship.⁵⁸

Political Reform. Political reforms promulgated by the late King Fahd in the early 1990s and continued under Crown Prince Abdullah have set in motion a limited move toward democracy and protection of individual freedoms. The “basic 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 (“Shura”) council (increased to 90 in 1997 and to 120 in 2001), with limited powers to question cabinet members and propose laws. On January 25, 2005, the Saudi Minister of Defense and Aviation and then Second Deputy Prime Minister Prince Sultan told Saudi newspapers that the council will be expanded to 150 members and given additional unspecified authority in the next three months; a royal decree in early April 2005 approved the expanded membership of the council.

In further steps, the Saudi government held three rounds of municipal elections on February 10, March 3, and April 20, 2005, in a three-stage process in which male Saudi citizens cast votes for half the members of 178 municipal councils in the country’s first nation-wide elections. Although political parties and coalitions were banned, post-election reports indicated that in most cases candidates endorsed by popular Sunni Islamic religious leaders fared best. Shiite Muslim candidates also did well in the Shiite centers of northeastern Saudi Arabia. Commentators differ as to whether winners represented a moderate religious trend or a more militant strain. In their joint press conference on April 25, 2005, President Bush and then Crown Prince Abdullah noted that “[t]he United States applauds the recently held elections in the Kingdom [of Saudi Arabia] ... and looks for even wider participation in accordance with the Kingdom’s reform program.”

Women’s Affairs. In a February 2005 press interview, the Saudi Foreign Minister predicted that women will vote in the next round of Saudi municipal elections.⁵⁹ Saudi women were allowed to vote and run for 12 elected seats for the Chamber of Commerce and Industry for the major commercial city of Jeddah in elections held on November 27, 2005. Two women won seats in what was described as an historic step. The issue of women’s social rights in Saudi Arabia remains an issue of interest to some Members and an issue that creates sensitivity and diverse viewpoints in Saudi Arabia. Some Saudi women advocate fundamental changes in the social, economic, and political rights of women in the kingdom, whereas others argue that women’s affairs should be addressed through religious tradition and dialogue. During a meeting with U.S. Under Secretary of State for Public Diplomacy Karen Hughes, several Saudi women expressed satisfaction with some of the

⁵⁸ Department of State, Country Reports on Human Rights Practices - 2005, Mar. 8, 2006.

⁵⁹ “Changes in the Kingdom — On ‘Our Timetable’” (interview by Lally Weymouth with Prince Saud al Faisal), *Washington Post*, Feb. 27, 2005.

restrictions on women in Saudi Arabia; for example, one said that she had no desire to drive a car.⁶⁰

Royal Succession. The late King Fahd, who ruled Saudi Arabia from 1982 until his death in August 2005, was a dynamic leader but suffered increasingly from medical problems, including diabetes and arthritis. Crown Prince Abdullah, a half-brother of the late king and commander of the elite National Guard forces, had governed the country on a day-to-day basis since then-King Fahd suffered a debilitating stroke in late 1995. As predicted by many commentators, the royal family backed Crown Prince Abdullah in a smooth transfer of power when King Fahd passed away. King Abdullah's replacement as crown prince is another key figure in the royal family, Prince Sultan, who has served for over 40 years as Minister of Defense and Aviation. As noted above, the king and crown prince hold the additional positions, respectively, of prime minister and first deputy prime Minister.

In the past, various sources described King Abdullah as more traditional and less western in outlook than the late King Fahd and more oriented toward the Arab world; however, in recent years he has acquired a reputation as a supporter of limited economic and political reform. On balance, the new king 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 then Crown Prince Abdullah established a very good personal rapport during the latter's visits to the United States in 2002 and 2005. King Abdallah's retention of the late King Fahd's cabinet ministers is interpreted in the press as evidence of likely continuity in Saudi domestic and foreign policies.

Future Succession and the Allegiance Council. In the aftermath of King Fahd's death, media reports initially speculated that the new King Abdullah planned to name a second deputy prime minister (a de facto deputy crown prince) as Abdullah's recent predecessors had done, but the king did not do so. Some commentators believed the king declined to take this step to avoid possible rivalries over future succession within the large Al Saud family, which numbers more than 5,000 princes, according to some estimates. On October 18, the royal court released royal decree A/135 to amend the Basic Law and create a Bayah [Arabic for "Allegiance"] Council to fill the positions of king and crown prince using defined procedures and criteria. The new rules will apply after current Crown Prince Sultan bin Adb al Aziz becomes king, at which time the 39 Allegiance Council members [members of the families of the 37 sons of the founder of the modern Saudi state, Abd al Aziz ibn Saud, plus two family members appointed by the king] will select a new crown prince in consultation with the king. In the event of the medical incapacitation of one or both rulers, the new rules dictate that a medical commission and transition ruling council will work alongside the Allegiance Council members to certify the health conditions of the parties in question and provide for stewardship of the state until a successor is chosen.

⁶⁰ Steven R. Weisman, "Saudi Women Have Message for U.S. Envoy," *New York Times*, Sept. 28, 2005.

Possible future candidates for succession include the 21 remaining brothers and half-brothers of the late king and a number of their sons and nephews. For example, many experts consider Prince Salman, Governor of Riyadh, and Prince Nayif, Minister of the Interior, as possible candidates for the position of crown prince when a potential future king needs to fill this position.⁶¹ Some observers have speculated that the appointment of King Abdullah's private secretary, Khaled al Tuwayjeri, as secretary general of the Allegiance Council may indicate the king's desire to influence the Council's operation in the event of his death or incapacitation. The lack of reference in the decree to Saudi Arabia's clerical establishment also has drawn comments from some academics who have speculated that the omission may have been an intentional step to sideline the religious authorities. Others contend that Saudi clerics have not had a direct role in the royal family's critical decision making processes for decades but rather have served in advisory and legitimating roles before and after key decisions are taken — roles that are likely to continue.

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⁶¹ Like Crown Prince Sultan, both Prince Nayif and Prince Salman are full brothers of the late King Fahd, and belong to an influential group within the royal family whose mother was a member of the Sudayri tribe. Some commentators note that the conservative Prince Nayif is thought to have resisted reforms supported by Abdullah, while Prince Salman has a lower international profile than Crown Prince Sultan or Prince Nayif.