

CRS Report for Congress

Received through the CRS Web

Saudi Arabia: Current Issues and U.S. Relations

July 11, 2006

Alfred B. Prados
Specialist in Middle Eastern Affairs

Christopher M. Blanchard
Analyst in Middle Eastern Affairs
Foreign Affairs, Defense, and Trade Division

Saudi Arabia: Current Issues and U.S. Relations

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. personnel 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 have contributed to terrorist acts by Islamic radicals. U.S. officials have generally cited Saudi support in the aftermath of the attacks, 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 National Intelligence Reform Act (P.L. 108-458, December 17, 2004) contains a requirement (Section 7120(b)) that the President submit to designated congressional committees a strategy for collaboration with Saudi Arabia, as part of a larger report on U.S. government activities to implement the provisions of this act.

Other principal issues of bilateral interest include security in the post-war Gulf region, 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) by 312-97 (Roll no. 244); this amendment prohibits U.S. assistance to Saudi Arabia and contained no Presidential waiver provision. The FY2006 Foreign Operations Appropriations Act (P.L. 109-102) contained an identical ban but provided waiver authority to the President. This CRS report replaces CRS Issue Brief IB93113, *Saudi Arabia: Current Issues and U.S. Relations*; it will be updated as circumstances warrant.

Contents

Recent Developments	1
Background to U.S.-Saudi Relations	2
Political Development	2
U.S. Aid, Defense, and Security	2
Congressional Interest in Saudi Arabia	3
Current Issues in U.S.-Saudi Relations	5
Royal Succession	5
September 11 Terrorist Attacks and Aftermath	6
Allegations	6
Saudi Responses	6
Joint Congressional Report	7
9/11 Commission Report	8
Major Terrorist Attacks	8
Saudi Stance 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	12
Arab-Israeli Conflict	12
Saudi-Palestinian Relations	12
Hamas: Pre-2006	13
Hamas: Post-Elections	13
Arms Transfers to Saudi Arabia	14
U.S. Arms Sales	14
Saudi-China Arms Contacts	14
Nuclear Concerns	14
Trade Relationships	15
Boycott of Israel and WTO Membership	15
Oil Production	16
Foreign Investment	17
Human Rights, Democracy, and Other Issues	18
Women and Political Reform	19

List of Tables

Table 1. Oil Consumption and Imports	16
--	----

Saudi Arabia: Current Issues and U.S. Relations

Recent Developments

Saudi Ambassador to the United States Prince Turki al-Faisal reportedly confirmed that the Government of Saudi Arabia will continue to enforce the Arab League's primary boycott of Israel, drawing criticism 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 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."

Saudi security forces killed 6 terrorist suspects during a shootout in Riyadh on June 23, renewing concerns about the terrorist threat in Saudi Arabia following statements made by King Abdullah in early June that al-Qaeda in the Arabian Peninsula had been "defeated." Two Somalis, an Ethiopian and an Iraqi were among 42 terror suspects arrested in follow-up operations. King Abdullah renewed an amnesty offer to terrorism suspects following the arrests, although al-Qaeda spokesmen rejected the offer in a statement released in early July, vowing to fight until "victory or martyrdom."

Two Saudi prisoners being held at the U.S. detention facility at Guantanamo Bay, Cuba committed suicide in early June, sparking a public outcry in Saudi Arabia for the repatriation or release of the over 100 Saudi nationals that remain in U.S. custody at the prison. On June 25, 13 Saudis were returned to Saudi Arabia from Guantanamo and remanded to the custody of the Saudi Ministry of the Interior. Reports suggest that further repatriations may be pending.

A high-profile debate over the nature and scope of political reform in the Kingdom continued to unfold in the Saudi press, highlighting contrasting perspectives on the proper role of religion in public life and government. In late May, over 60 Saudi clerics and religious scholars issued a joint statement entitled "A Warning and a Declaration," that accused "an apostate gang" of officials, media figures, and others of implementing "a westernization scheme" that would "weaken religious laws" and "turn the country into a replica of the deviant societies."

Minister of Foreign Affairs Prince Saud Al-Faisal visited Washington in May to co-chair the second session of the U.S.-Saudi Strategic Dialogue. Saudi and U.S. officials reviewed the activities and plans of several issue-specific working groups and issued joint statements regarding Iran, Iraq, and the Israeli-Palestinian conflict.

Background to U.S.-Saudi Relations

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, 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. Five sons have succeeded him. 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%, Shi'ite 5-15%)
Literacy (2003):	78.8% (male 84.7%, female 70.8%)
GDP (2004):	\$236.8 billion; growth rate: 5.3%*
External Public Debt (2004):	\$35.8 billion
Inflation (2004):	0.8%
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 (London)

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. A small IMET program of \$22,000 per year to help defray some expenses of sending Saudi officers to U.S. military service schools was resumed in FY2002 and increased slightly to \$24,000 in 2003 and 2004; and \$25,000 in 2005; \$24,000 was requested by the Administration for Saudi Arabia in FY2006 and \$20,000 in FY2007. This amount permits Saudi Arabia to purchase additional U.S. training at a lower cost than that which is charged to countries not eligible for IMET. Saudi officials also cite their country's role as a donor of aid to less affluent countries; according to the Saudi Embassy in Washington, Saudi Arabia gave \$1.7 *billion* in development assistance and \$14.7 *million* in relief assistance to developing countries in 2002. Recently, on November 13, 2005, U.S. and Saudi officials announced a "strategic dialogue" to expand cooperation in six key areas: counterterrorism, military affairs, energy, business, education and human development, and consular affairs.

Congressional Interest in Saudi Arabia

108th Congress

Relevant sections of the Intelligence Reform and Terrorism Prevention Act (P.L. 108-458, December 17, 2004) capture many of the concerns reflected in the 9/11 Commission report regarding Saudi Arabia. Section 7105(a) contains findings that review problems in the bilateral relationship but note improvements in counterterrorism cooperation between the two countries since mid-2003. Section 7105(b) expresses 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) requires 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 this act.

109th Congress

The 109th Congress has continued to show concern over the role of Saudi Arabia in the war against terrorism, with particular emphasis on encouraging Saudi leaders to heighten their efforts against terrorist financing. S. 12, the Targeting Terrorists More Effectively Act of 2005, introduced on January 24, 2005, contains sections on Saudi Arabia including a statement of U.S. policy to work with the Saudi government to curtail terrorist financing through a variety of methods; findings that Saudi Arabia has an uneven record in fighting terrorism; and a requirement that the President submit a report to designated congressional committees containing a long-term strategy for U.S.-Saudi engagement and for effective prevention of terrorist financing.¹

¹ Section 7120 of the Intelligence Reform and Terrorism Prevention Act (P.L. 108-458, Dec. (continued...))

H.R. 604 would halt issuance of visas to Saudi citizens until the President certifies that the Saudi government does not discriminate in its visa policies on the basis of religious affiliation or cultural heritage. H.R. 2037, the Saudi Arabia Accountability Act of 2005, is similar to two previous Saudi Arabia Accountability Acts (H.R. 3643/S. 1888), proposed but not enacted in the 108th Congress. Like the earlier bills, it would prohibit 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 restrict travel of Saudi diplomats in the United States. Section 810 of S. 600, the State Department authorization bill for FY2006-2007, expresses the sense of Congress that the municipal elections held in early 2005 constituted a “positive initial step” and adds that it is in the interest of Saudi Arabia to permit women to vote and run for office in future elections.

Prohibitions on U.S. Aid to Saudi Arabia

Since 2004, several proposals to prohibit the extension of IMET aid to Saudi Arabia have been considered and adopted by Congress. As the total amount of U.S. aid to Saudi Arabia has been 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 impose a ban on U.S. aid to Saudi Arabia outright and contains no waiver authority. The Consolidated Appropriations Act for FY2005 (P.L. 108-447, December 8, 2004) contains a ban on U.S. assistance to Saudi Arabia (Section 575) but provides for a presidential waiver if the President certifies that Saudi Arabia is 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 contains waiver authority if the President certifies that Saudi Arabia is cooperating with efforts to combat international terrorism and that the proposed assistance will facilitate that effort. President Bush signed the bill as P.L. 109-102 on November 14, 2005. As of July 2006, the President had not issued a waiver for FY2006 aid to Saudi Arabia. On June 9, 2006, the House adopted H.Amdt. 997 to H.R. 5522 (Foreign Operations Appropriations, FY2007) by 312-97 (Roll no. 244); this amendment prohibits U.S. assistance to Saudi Arabia and contained no presidential waiver provision.

¹ (...continued)

17, 2004) — requires the President to submit a strategy as part of a larger reporting requirement within 180 rather than 90 days, as explained above.

Current Issues in U.S.-Saudi Relations

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 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 have done, but so far the King has not done so. Some commentators believe the King has deferred taking this step to avoid possible rivalries over future succession within the large Saud family, which numbers more than 5,000 princes, according to some estimates. Possible future candidates for succession include some 25 brothers and half-brothers of the late King and a number of sons and nephews. For example, press sources have mentioned Prince Nayif, Minister of the Interior, and Prince Salman, Governor of Riyadh, as possible candidates for the position of Second Deputy Prime Minister, should King Abdullah decide to fill this position.²

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.

² Like Crown Prince Sultan, both Prince Nayif and Prince Salman are full brothers of the late King Fahd, thus belonging to an influential group within the royal family. 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 Prince Sultan or Prince Nayif.

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. Commentators have pointed to the high percentage of Saudi nationals among the hijackers (15 out of 19). Some critics go so far as to accuse Saudi government officials of responsibility for the September 11, 2001, attacks through design or negligence and for the continuing threat posed by the perpetrators or by like-minded terrorist groups. Others maintain that Saudi domestic and foreign policies have created a climate that may have contributed to terrorist acts by Islamic 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.³ 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, which the U.S. government has identified as responsible for the attacks. The exiled bin Laden was formerly a Saudi national, but Saudi authorities revoked his citizenship in 1994.⁴

Saudi Responses. 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. In October 2001, the Saudi government announced that it would implement U.N. Security Council Resolution 1373, which called among other things for freezing terrorist related funds. The Saudi government later invited the Financial Action Task Force (FATF) on Money Laundering into the kingdom to conduct a "mutual evaluation" and passed new banking regulations.⁵ On February 24, 2004, Saudi Arabia and 12 other Middle East or Asian countries attended a conference organized by the 29-member FATF, where attendees focused on terrorist use of charitable organizations to finance terrorist operations. In February 2005, Saudi Arabia hosted a counterterrorism conference at which attendees adopted a resolution (the "Riyadh Declaration") condemning violence and terrorism. Subsequently, the State Department reported that Saudi Arabia had established a Financial Intelligence Unit (FIU) on September 10, 2005, to collect intelligence on terrorist financing activity.

Saudi officials say they have sought to dampen religious extremism in the Kingdom (see below). In 2004, Saudi authorities reportedly began a program aimed at re-educating young Saudis arrested as Al Qaeda sympathizers by exposing them

³ See CRS Report RS21654, *Islamic Religious Schools, Madrasas: Background*, by Christopher M. Blanchard.

⁴ See CRS Report RL32499, *Saudi Arabia: Terrorist Financing Issues*, by Alfred B. Prados and Christopher M. Blanchard.

⁵ According to the U.S. State Department, the FATF concluded after the mutual evaluation that the financial control regime adopted by Saudi Arabia met the general FATF recommendations for combating money laundering and terrorist financing.

to former radical clerics with strong Islamic credentials who have renounced violence.⁶

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. According to the U.S. Treasury Department, the United States and Saudi Arabia have worked together in jointly designating several entities as supporters of terrorism. Assets of suspect charities were to be merged into a new organization to be called the Saudi National Commission for Relief and Charity Work Abroad, in an effort “to ensure that the charity of our citizens goes to those who need it.” (The Commission is not yet operational, however, as of July 2006.) According to the State Department report, a Financial Intelligence Unit (FIU), originally chartered under 2003 anti-money laundering and anti-terrorism legislation, opened on September 10, 2005.

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: 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 within in Saudi Arabia and exert influence over international charities based in Saudi Arabia that are active abroad.⁷

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.⁸ 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. By what logic would we support

⁶ “Saudi Effort Draws on Radical Clerics to Combat Lure of Al Qaeda,” *Washington Post*, May 7, 2006.

⁷ Josh Meyer, “U.S. Faults Saudi Efforts on Terrorism,” *Los Angeles Times*, Jan. 15, 2006.

⁸ “Classified Section of Sept. 11 Report Faults Saudi Rulers,” *New York Times*, July 26, 2003.

a cult that is trying to kill us?”⁹ On July 29, 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.¹⁰

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 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.

Major Terrorist Attacks

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 slacking off 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

⁹ “Saudis Slam Congressional Report Accusing Kingdom of Poor Cooperation in Terror War,” *Associated Press News Wire*, July 26, 2003.

¹⁰ “Bush Refuses to Declassify Saudi Section of Report,” *New York Times*, July 30, 2003.

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 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 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, renewing concerns about the terrorist threat in Saudi Arabia following statements made by King Abdullah in early June that al-Qaeda in the Arabian Peninsula had been "defeated."¹²

Saudi Stance 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 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

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. According to the 9/11 Commission's report, "[a]s in Pakistan, Yemen, and other countries, [Saudi] attitudes changed when the terrorism came home."

¹² "Saudi King Says al-Qaeda Militants Defeated," *Reuters*, June 7, 2006.

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

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.

Like several Sunni Muslim-led regimes in the Gulf region, Saudi leaders are reportedly worried in the aftermath of the war about the possible spread of Shi'ite Muslim influence in the region, especially Iraq, whose Shi'ite majority may be vulnerable to Iranian overtures.¹⁴ A joint statement by President Bush and then Crown Prince Abdullah on April 25, 2005 called on the international community to support Iraq and urged neighboring states to avoid interfering in Iraq's internal political affairs. On September 22, 2005, during a visit to the United States, Saudi Foreign Minister Prince Saud al-Faisal warned that trends in Iraq were leading toward greater disunity: "I wish it would happen, but I don't think that a constitution by itself will resolve the issues, or an election by itself will solve the difficult problems." In a February 13, 2006, interview with CNN, Saudi Ambassador to the United States Prince Turki al-Faisal said the Iraqi Sunni community had two main demands: an equal share in the resources of Iraq (mainly oil) and safety from retribution (by Shi'ites or Kurds).

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 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 2006.¹⁵ 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 have been infiltrating into Iraq through Iran, Syria, and Saudi Arabia to mount attacks against U.S.-led coalition forces in Iraq. In remarks published on August 26, a senior Saudi foreign policy advisor responded that "we have no evidence of Saudis crossing into Iraq and we have received no evidence from the U.S. government."¹⁶ 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

¹⁴ "As Saudi Visits, Bush Seeks Help on Lowering Oil Prices," *New York Times*, Apr. 25, 2005.

¹⁵ The London-based International Institute for Strategic Studies in its annual publication, *The Military Balance*, 2006, p. 207.

¹⁶ "Saudis Challenge U.S. Over Iraq Fighters," *Washington Post*, Aug. 26, 2003.

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.¹⁷

A subsequent press report also mentions “hundreds” of Saudis fighting U.S. forces in Iraq, while a more recent report quotes an allied coalition official as saying that “[w]e can confirm that there have been Saudi Arabian fighters in Iraq....”¹⁸ According to the same article, non-governmental experts estimate that 12% to 25% of foreign fighters in Iraq are Saudis. In his February 13, 2006, interview, Prince Turki 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 “our 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.

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 Faisal al-Saud expressed concern over Sunni-Shi’ite 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.”¹⁹ 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.”²⁰ 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.”²¹ On November 8, 2005, Prince Saud al-Faisal told a Washington audience that Saudi Arabia is providing financial and material aid to the Iraqi people to counter terrorism and noted that Saudi Arabia had convened a meeting in early October to seek ways to bring Iraqi factions together.²²

¹⁷ *Financial Times* (London), December 20, 2004.

¹⁸ “Islamic Activities Sweep Saudi Council Elections,” *Washington Post*, Apr. 24, 2005; and, “U.S. Faults Saudi Efforts on Terrorism,” *Los Angeles Times*, Jan. 15, 2006.

¹⁹ Robert Gibbons, “Saudi Says U.S. Policy Handing Iraq over to Iran,” *Reuters*, Sept. 20, 2005.

²⁰ Suleiman al-Khalidi, “Iraq Blasts Saudi Arabia for anti-Shi’ite remarks,” *Reuters*, Oct. 2, 2005.

²¹ Steven R. Weisman, “Rice, in Testy Hearing, Cites Progress in Iraq,” *New York Times*, Oct. 20, 2005.

²² Address at the 59th Annual Conference of the Middle East Institute, accessed on Saudi embassy website, Nov. 9, 2005: [<http://www.saudiembassy.net/>]. The Prince did not estimate the amounts of money or materiel involved. In his February 13, 2006, interview, the Prince added that an Arab League meeting in November 2005 adopted a plan for inter-Iraqi reconciliation but did not give details.

Iraqi Debt. As of January 2004, Iraq reportedly owed the Saudi government \$9 billion in debts incurred during the Saddam Hussein regime, while private Saudi firms and banks hold about \$19 billion in Iraqi debt.²³

Arab-Israeli Conflict

Saudi Arabia supports Palestinian national aspirations, strongly endorses Muslim claims in the old city of Jerusalem, and has been increasingly critical of Israel since the outbreak of the Palestinian uprising in the occupied West Bank and Gaza 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 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 al-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 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.”²⁴

Saudi-Palestinian Relations. Saudi Arabia, like other Arab states, recognizes the Palestine Liberation Organization (PLO) as the legitimate representative of the Palestinian people. Saudi officials say that their support to Palestinians (estimated at \$80 million to \$100 million per year) is 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.²⁵ Saudi Arabia has provided aid (variously estimated at \$33 million and \$59 million) to families of Palestinians killed or injured in the three-year-old Palestinian uprising; in addition, Saudis raised additional funds (over \$100 million according to

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

²⁴ Available at the following website: [<http://www.whitehouse.gov/news/releases/2005/04/print/20050425-8.html>].

²⁵ “Flow of Saudi Cash to Hamas Is Under Scrutiny by U.S.,” *New York Times*, Sept. 17, 2003.

one report) for this purpose at a telethon sponsored by then King Fahd on April 11, 2002. Saudi officials told U.S. counterparts in late April 2002 that proceeds of the telethon are funneled through non-governmental organizations to provide some humanitarian support to needy Palestinian families; the Saudis drew a distinction between their fund raising activities and those of Iraq under Saddam Hussein, which paid families who would sacrifice their children as suicide bombers.²⁶ 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."²⁷ 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 press report, people in Saudi Arabia contribute approximately \$5 million to Hamas per year, or approximately half of its annual operating budget.²⁸ Some reports indicate that Saudi authorities tolerate 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. Saudi spokesman Adel al-Jubeir maintained that "no Saudi government money goes to Hamas, directly or indirectly."²⁹ (See also CRS Report RL32499, *Saudi Arabia: Terrorist Financing Issues*, by Alfred B. Prados and Christopher M. Blanchard.)

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

²⁶ 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.

²⁷ Country Reports on Global Terrorism, 2005, published Apr. 28, 2006.

²⁸ 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 addition, Saudi Arabia provided \$21 million in 2005 in response to an emergency appeal by UNRWA.

²⁹ 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.

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.

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 1997 through 2004, U.S. arms *ordered* by Saudi Arabia amounted to \$7.3 billion while U.S. arms *delivered* to Saudi Arabia amounted to \$22.9 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 straitened finances.

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." (See below.)

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). 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.³⁰ In his January 2006 interview with the *Middle East Economic Digest*, Saudi Foreign Minister Prince Saud said “We are not going to pursue any of these [nuclear] weapons” and went on to comment that nuclear power “is dangerous in itself.”

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 2004, were \$16.9 billion in exports and \$6.5 billion in imports. 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.³¹ 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.³²

Boycott of Israel and WTO Membership.³³ 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 States on Saudi Arabia’s WTO accession. Under the terms of the bilateral agreement, 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, Saudi Ambassador to the United States Prince Turki al-Faisal reportedly stated that the

³⁰ George Jahn, “Saudi Arabia Exempt From Nuke Inspections,” *Guardian*, June 16, 2005.

³¹ Full text in Federal Register, Vol. 70, No. 219, Nov. 15, 2005.

³² For more background, see American Association of Exporters and Importers, “Saudi Arabia’s WTO Accession,” Vol. 105, No. 46, Nov. 22, 2005.

³³ For background, see CRS Report RS22424, *Arab League Boycott of Israel*, by Martin A. Weiss.

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."³⁴ H.Con.Res. 370 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. The resolution passed the House unanimously on April 5, 2006 and was received in the Senate and referred to the Committee on Finance.

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 1**).

Table 1. 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*
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: DOE. *Note: 2005 U.S. consumption figure based on first 11 months of 2005.

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

³⁴ Michael Freund, "Saudi Ambassador to U.S. Admits Boycott of Israel Still in Force," *Jerusalem Post*, June 22, 2006; Freund "U.S. Official Under Fire Over Saudi Flap," *Jerusalem Post*, June 25, 2006;

Prince's foreign policy advisor said the \$22-\$28 price band has become unrealistic.³⁵ 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.

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."³⁶

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.³⁷

³⁵ 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.

³⁶ 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.

³⁷ "Small Steps Forward," *Middle East Economic Digest*, Apr. 22-28, 2005, pp. 42-44; (continued...)

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.³⁸

Human Rights, Democracy, and Other Issues

Of particular concern to Westerners are pervasive restrictions on women’s activities³⁹ 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. A petition presented by Saudi Shi’ite representatives was followed by an audience with then Crown Prince Abdullah on April 30, 2003, indicating that both the government and the Shi’ite petitioners may be seeking to pursue a more cooperative approach. Discrimination against the mystic-oriented Sufi sects, long opposed by the Saudi regime, has reportedly eased in the last few years.⁴⁰ 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 guidelines in practice and have not provided specific guidelines to determine what constitutes private worship.⁴¹

In the State Department’s annual Report on International Religious Freedom (September 15, 2004), Saudi Arabia was designated for the first time as a “Country of Particular Concern.” Saudi Arabia was again so designated in the most recent annual report published on November 8, 2005, but at an accompanying briefing, a State Department official noted that King Abdullah has taken steps toward inter-religious dialog. In his 2005 State of the Union address, President Bush commented that “[t]he Government of Saudi Arabia can demonstrate its leadership in the region

³⁷ (...continued)

“Sultans of Swing,” *Middle East Economic Digest*, May 6-12, 2005, pp. 4-5.

³⁸ “Avoiding Political Talk, Saudis and Chinese Build Trade,” *New York Times*, Apr. 23, 2006.

³⁹ 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.

⁴⁰ Faiza Saleh Ambah, “In Saudi Arabia, a Resurgence of Sufism,” *Washington Post*, May 2, 2006.

⁴¹ Department of State, Country Reports on Human Rights Practices - 2005, Mar. 8, 2006.

by expanding the role of its people in determining their future.” In his 2006 address, the President noted that “Saudi Arabia has taken the first steps toward 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 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. Shi’ite Muslim candidates also did well in the Shi’ite 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 and Political Reform. In a February 2005 press interview, the Saudi Foreign Minister predicted that women will vote in the next round of Saudi municipal elections.⁴² 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 Jidda in elections held on November 27, 2005. Two women won seats in what was described as an historic step. In another vein, during a meeting with U.S. Under Secretary of State for Public Diplomacy Karen Hughes, several Saudi women expressed satisfaction with some of the restrictions on women in Saudi Arabia; for example, one said that she had no desire to drive a car.⁴³

⁴² “Changes in the Kingdom — on ‘Our Timetable’” (interview by Lally Weymouth with Prince Saud al-Faisal), *The Washington Post*, Feb. 27, 2005.

⁴³ Steven R. Weisman, “Saudi Women Have Message for U.S. Envoy,” *New York Times*, Sept. 28, 2005.