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MEMORANDUM

SUBJECT: STATE DEPARTMENT BRIEFING ON SAUDI ARABIA (JAMES GAGNON)

DATE: 8 SEPTEMBER 1980

1. There are three relevant issues with regard to US/Saudi interests:
 - A. Mideast peace
 - B. Regional security
 - C. Economic cooperation
2. Mideast Peace
 - A. Saudi preoccupation with this overrides all else.
 - B. They are not satisfied with progress.
 - C. In October 1978 they stated publicly that they favored a Camp David approach.
 - D. They have been quite displeased with the outcome.
 - E. They feel that the Camp David agreement provided a separate peace for the UAR without Palestinian "determination," without solving Jerusalem's status, and without dealing with the occupied territories of Gaza, West Bank, and Golan Heights.
 - F. They believe Israel has taken Egypt out of the dynamics, depriving the Arab campaign of its major power, and thus gaining much advantage for Israel.
 - G. If Egypt remains neutral, Israel won't have to resolve the other issues.
 - H. They hold that recent events confirm this -- e.g., the target date for resolution of the Camp David handouts passed without resolution of the issues; the Knisset voted to incorporate Jerusalem.
 - I. Therefore, general Saudi dissatisfaction.
 - J. Prince Fahd declared Jihad (holy war), but privately the Saudis make it clear that this connotes political and economic struggle.
 - K. Saudis are concerned about Arab dissatisfaction. They seek unity and cooperation.
 - L. They believe that the present "peace" strengthens the hand of the radical Arabs as does any division -- the Palestinians have nowhere else to turn except Moscow -- therefore, the radical Arabs are benefited.

- M. Saudis realize that they can't expect any action before the U.S. election. They are clear that they expect it thereafter.
- N. They see Palestinian unrest as the key initiator of turmoil.
- O. Uniting the Arabs against the Soviets is impossible without resolving the Palestinian issue.
- P. The US/UN vote and then the reversal both hurt U.S. credibility -- the recently failed UAR/Israel talks hurt credibility.
- Q. The Saudis don't have a method for reaching accord.
- R. They want more pressure on Israel immediately after the election.

3. Regional Security

- A. This has to be in the context of a Mideast peace.
- B. They, too, perceive the Soviet threat -- they believe Soviet activities in South Yemen, Iran, and Afghanistan are all aimed at their oil fields.
- C. They take seriously that the Soviets will become net importers of oil in the 1980s.
- D. Although they want US security assurances, they don't want US bases or troops -- they believe in having us "over the horizon," "don't call us, we'll call you," -- until peace arrives.
- E. If true, overall Mideast peace is achieved, they will be more forthcoming, less tense, about a perceived relationship with the U.S.
- F. By rejecting the Camp David accords, they keep their Arab reputation.
- G. By keeping the U.S. at arm's length, demonstrating that they are not lackies, they remain good Arabs -- while desiring and soliciting U.S. arms and equipment.
- H. U.S. weaknesses are recognized and this causes concern, but it is somewhat less responsible for their arm's length attitude than is the lack of an overall peace settlement.
- I. They believe that after a full peace, they can mobilize all Arabs against the Soviets.
- J. The Mecca Mosque episode was quite different than portrayed in the media. The media took parallels with the fall of the Shah -- State believes that the "middle" term prospects for the regime are good (next three to five years) -- the succession question has been worked out. Fahd would

become King, and Prime Minister Abdullah (now commander of the national guard) would become Minister of Defense. Sultan, now Minister of Defense, would become Second Prime Minister -- the Mosque episode was carried out by religious zealots. Unbelievably they were right of the main stream Saudi Wahabism -- Soviets were not involved -- it was a fundamental Wahabi Mosel group which wanted to turn the clock back -- there were some non-Saudis, but no foreign government involvement -- the incident caused the Saudis to reconfirm the rate of their development program -- they have always walked a tightrope between brisk enough development and the conservatives who want to go very slow -- the Mosque incident heightened the debate and it still goes on -- the regime is listing to the conservative clique but hasn't yet slowed its development pace. They are more concerned than before about foreign implication. They are getting ready to prohibit foreign families -- they recognize the economic growth will naturally level off in comparison to past progress.

- K. Corruption -- it is more than just the money involved. It is the perception of the royal family by the people -- the regime's legitimacy is affected -- they know they need to appear to be defenders of the faith, non-womanizers, non-alcohol, etc., in order to maintain their image of legitimacy -- yet with 3,000 to 4,000 princes, it is very difficult to police individual conduct. Fahd had a reputation in his day for some misbehavior. Sultan II Abdullah is a more conservative traditionalist.

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4. Economic Cooperation

- A. Petroleum -- the Saudis have worked hard to help the West by keeping production at 1 billion barrels per day above the preferred 8.5 million level since July of 1979.
- B. Their express purpose in doing so is to make up for the Iranian deficit.
- C. They want to avoid a Free World depression both for their own economic benefit and for security reasons.
- D. Also, they want to keep up the extra flow out of concern for the haphazard pricing -- all the way from Algeria's \$37.50 per barrel down to Saudi's \$28 per barrel -- they seek price unification -- they want an orderly pricing system -- they want to lessen the shock of sudden price rises --

by keeping production up they are seeking to create a glut in order to force the price hawks to settle down -- they believe that \$32 a barrel is the best guess at which unity would be achieved.

- E. Saudi development -- the U.S. private sector is heavily involved but its participation has been falling rapidly, as a result of the U.S. anti-boycott and tax laws. (The taxing of expatriot Americans raises the costs to Saudi Arabia.) As a result, the U.S. share of the Saudi market has dropped to 21 percent, while Japan and Western Europe have raised to about the same fractions -- there isn't a clear-cut division between private and government interests, although the top three Saudis stay relatively uninvolved in the business -- most of the better known Saudi businessmen are very astute businessmen.

5. General Comments

- A. Saudis are deeply concerned about getting equipment for the F-15s and will be very upset if it is not forthcoming after the election -- meanwhile, no comment.
- B. With 70 Senators having signed a letter protesting updating the F-15s, it is going to be tough to get a bill through.
- C. The Saudis are not happy with U.S. facilities in Oman. By "over the horizon" they mean Somalia, Kenya and Diego Garcia -- they believe that Oman has internal problems.
- D. They are concerned about Soviet presence in Pdry.
- E. State and Saudi view is that North Yemen is playing the Russians, the U.S., and the Saudis all about equally.
- F. Petroleum production -- there is a high level of concern in Saudi Arabia among conservatives and technocrats that it is a disbenefit to the Saudi economy to maintain the million barrels per day extra production -- they have more money than they can use for development -- the extra foreign reserves are not as valuable as the oil in the ground.
- G. The U.S. tries not to link petroleum to U.S. security or Middle East peace. (The F-15 specifically should not be linked to petroleum; Secretary Brown goofed in giving a speech linking oil price to Western security.

- H. U.S. strategic petroleum reserve -- Saudis say -- how can they stand up to the radical Arabs and their own conservatives and technocrats and to OPEC about production of 1 million barrels per day extra while the U.S. is storing 100,000 barrels per day away.
- I. Survivability of the regime -- unlike Iran, which had a single small royal family, and which maintained utmost privacy, the Saudi regime has many princes, many of whom are visible -- the original King Iban Saud came to power in an alliance with the Wahibi sect. The ties remain closely intertwined -- the family regime takes its religion seriously -- religion is not highly politicized as it was in Iran -- the Shah didn't worry about the problems of the religious leaders or small merchants -- the Saudis do -- Saudis have done a better job of distributing the wealth among their 6 or 7 million than the Shah did among his 32 million.
- J. In addition to the Mosque episode, there were the several episodes involving Shia discontent -- the Shiites are 25 percent of the population in the eastern provinces, but only three percent overall. The Sunni majority looks down on them -- the Shiites do work heavily in the oil fields and could sabotage, but could never bring down the regime with a Sunni king -- the national guard was quite heavy-handed in putting down the Shiite unrest -- the Saudis have announced a sewage project and hospital for the Shiites, but they are destined to remain second class.
- K. If the regime is ever tumbled, it will be the result of one of two causes:
 - 1. If the ruling family makes a critical political blunder.
 - 2. If corruption gets worseThe military are traditionally apolitical, but any of the two foregoing may ultimately lead to a colonel's coup -- most of the military and technology people trained in the U.S. come back with idealist ideas but get co-opted by the economic opportunities of belonging to the elite.
- L. U.S. Ambassador John C. West, former governor of South Carolina, early Carter backer, brought a lot of Saudi business into South Carolina while he was a governor, and has very good ties with the Saudis.

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cc. Worth Bagley