

# 1471-4-1, Fiscal, US, Relations

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## Saudi Arabia's Importance to the United States

Simply put, Saudi Arabia is the bedrock of the American position in the Eastern Arab world. American interests are primarily economic, but even in an era of reduced American presence overseas, we also have considerable strategic interests which relate to larger contiguous areas.

American companies control almost all of the oil production of Saudi Arabia, the second largest exporter of crude oil in the world and possessor of by far the world's largest oil reserves, conservatively estimated at 147 billion barrels (a very impressive figure even by enormous Middle Eastern standards). Not only is Western access to the oil important to the United States, but also the \$700 million or more that is returned to the United States as repatriated net profits or invested in downstream operations abroad of the American oil companies. In both cases these funds provide important relief to the United States balance of payments. Even more important for the future may be the availability of Saudi oil reserves as U.S. reserves dwindle and the growing importance of the Persian Gulf as the major base point for international oil pricing.

Saudi Arabia in 1970 purchased \$140.8 million worth of U.S. exports and herself exported only \$19.7 million worth to the United States -- a net gain to our balance of payments of \$121.1 million. The country with its rapidly expanding economy, free market and solid convertible currency is a prime market for U.S. exports, particularly for U.S. aerospace firms presently in great need of overseas markets. Saudi Arabia, moreover, is a prime source of funds for the American and Eurodollar markets. Through its Monetary Agency it has in the past few years behaved with responsibility and restraint to help ease the pressure on the American dollar in time of stress.

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The continued flow of Saudi oil to Western Europe and Japan is a matter of major strategic concern to the United States, particularly now that a policy of reduced American presence places more responsibilities on our allies in NATO and the Far East. (On a more direct basis, the continued availability of refined petroleum products, particularly fuel oil and JP-4 jet fuel, from Saudi Arabia and Bahrain has been of critical importance to U.S. Navy and Air Force operations in Southeast Asia.) Continued access to Saudi Arabia and denial of its facilities to hostile powers retains its importance in a period of growing Soviet naval activity in the Indian Ocean area. In 1970 we were granted a total of over 1,500 military overflights of Saudi territory, excluding internal military aircraft flights, at a time when adjacent East-West air corridors have been politically denied to us. During 1970 the flights included shipments of emergency medical and military supplies to Jordan, all of which were cleared immediately by the Saudi Government.

In an era of rising anti-Americanism and an eroding U.S. position in the Eastern Arab world, Saudi Arabia has provided a physical location for an effective U.S. presence in the area and an opportunity to demonstrate that U.S. help in an Arab country's development can be provided despite strong differences of opinion over the Arab-Israel issue. American military, government civilian, and private sector advisors have played a key role in the country's development in the economic, social, and defense sectors. More specifically it is aiding USG regional interests by providing important economic support to Jordan and Yemen. Similar support for the UAR has made Saudi Arabian desires for political stability in the Arab world a factor to be carefully considered in UAR foreign policy. In the Persian Gulf, Saudi Arabia seeks co-operation with Iran to help ensure area stability after the British withdrawal this year.

#### Our Bilateral Relations

Strong mutual interests provide a sound basis for the US-Saudi relationship. Our interests defined above mesh with strong Saudi government interests in continuing this close relationship. These include the political/military support the USG provides to a regime which feels threatened by more powerful and radical neighbors, the dependence on American and other Western technical and military advisors and technological "know-how," the need for an orderly world market for its oil met by the American owner companies, and the need for financial stability for a currency closely tied to the American dollar.

The essential weakness in this relationship is that it lies on a narrow governmental base on both sides. There is no strong public support in the United States, despite our tangible interests; for a regime about which many Americans know little except that it formerly was ruled by a king who was a compulsive and conspicuous spender and that it strongly disagrees with U.S. support of Israel. In Saudi Arabia many xenophobic religiously-oriented conservatives oppose American influence as foreign and materialistic, while liberal, politically aware, and Western-educated people are affected by the anti-American aspects of Arab nationalism and by American-Arab differences over Palestine.

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### Policy Assessment

Our primary objectives in Saudi Arabia remain essentially as in our last assessment. Progress in achieving them depends on keeping and smoothing our present relationship.

1. Facilitating continued U.S. access to Saudi oil;
2. Supporting the Saudi regime against external and internal threats;
3. Maintaining and expanding our penetration of the Saudi commercial and financial markets;
4. Providing American expertise to foster the orderly economic development of Saudi Arabia;
5. Influencing Saudi foreign policy in the interest of area stability; and
6. Moderating the anti-American trend in Saudi public opinion and deepening contact with the Saudi leaders, particularly the leaders of the future.

### Discussion

The present political relationship between the United States and Saudi Arabia is clearly focused on our common interests, despite the strain of widely divergent views on the Arab-Israeli problem. This strain is stimulating Saudi Arabia's tendency to diversify its ties to the economic benefit of countries such as Japan and France. At the same time SAG realizes that ties with these countries are no substitute for its U.S. ties which contribute strongly to its well-being and security.

By maintaining our present close dialogue with Saudi leaders, we are able to at least explain our policies in the Middle East which do not coincide with Saudi views. Our extensive interests in Saudi Arabia should, of course, continue to be an important element in determination of our overall policies toward the Middle East. U.S. arms policy toward Israel remains a serious irritant in our bilateral relations. On the other hand, recent U.S. statements on the terms of an Arab-Israeli settlement, particularly the Secretary's Galaxy Speech of December 1969, the President's Foreign Policy Report to Congress of February 25, 1971, and the Secretary's press conference of March 16, 1971, have all brought a warm and hopeful response in Saudi Arabia. However, such statements tend to be seen as foreshadowing a policy of unrestrained pressure on Israel to withdraw from Arab territories, and, with little Arab inclination to fathom the full complexities of the situation, there is sharp disappointment and annoyance when the desired U.S. "pressure" on Israel fails to materialize.

The nature of government in Saudi Arabia necessitates a constant diplomatic dialogue at the Ambassadorial level with King Faisal and his key aides,

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The approaching withdrawal of British forces and the difficulties involved in forming a Federation of Arab Amirates have at last prompted the Saudi government to accept the need to play a more active and constructive role in the Persian Gulf. We should encourage this trend which involves closer contact with Great Britain, Iran, Kuwait, and the nine rulers to solve the problem of Iran claims to Abu Musa Island and the Tunb Islands and to overcome the reluctance of the rulers to establish a meaningful federation. We should also try to stimulate Saudi funding for technical assistance projects in the poorer shalkhdoms and the use of existing Saudi institutions, such as the College of Petroleum and Minerals, to aid in regional economic development and educational projects.

Saudi Arabia continues to display enthusiasm for a foreign policy of closer ties with non-Arab Muslim states through direct contacts such as the King's 1970 visit to the Far East and through the multilateral efforts of Islamic Foreign Ministers Conferences and the newly-formed Islamic Secretariat in Jidda. While the King's efforts to date have not drawn universal enthusiasm from Muslim states, the King is proud of his achievements and sensitive that the West may be ignoring his efforts through an anti-Islamic bias. This is not an issue in which the U.S. Government could or should play a visible role, but we should demonstrate our sympathetic respect for the King's efforts without providing encouragement to pursue unreal goals. At the same time we should remember that Saudi Arabia as the center of orthodox Islam does enjoy considerable prestige among the devout in all Muslim countries.

#### 6. Influencing Saudi Opinion

A major political propaganda effort by the United States is not consonant with official Saudi sensitivity to foreign influences or our deep differences over our Arab-Israeli policy. The lack of an articulate, politically-conscious public and of influential public media, suggests a low-key, carefully-targeted approach. The major effort of USIS in the media field, therefore, consists of quickly disseminating information on U.S. policy and policy announcements to the media and free-lance commentators and of close personal contact with Saudi media representatives to provide a clear undistorted view of American policy.

The United States has close ties with current Saudi governmental and business leaders. Should the regime change suddenly, we would lose most of these ties, but we would expect that a number of the new leaders, especially from military elements, would have had some exposure to the United States. Our U.S. Military Training Mission, therefore, plays a key role in maximizing this exposure among the Saudi officer class, who, as in an Arab Middle Eastern country, would seem to present the greatest potential danger to the current

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regime. Similar efforts by USIS and other Embassy elements particularly through the USIS-operated English Language Center in Riyadh allow us to reach members of the informational and academic groups whose unhappiness over the pervasive conservatism of Saudi Arabia could potentially lead them to participate in dissident activities.

The Embassy represents only a tiny fraction of the American presence in Saudi Arabia. The private American community plays a much larger role in daily contacts with the Saudi public. By and large American firms have behaved very carefully and responsibly in their efforts in the country. We will continue to urge them to help build respect for American values and technology, especially among younger educated Saudis and to select carefully their staffs in the country.

The number of American-educated Saudis is growing steadily. Through USIS and personal Embassy contacts, we are attempting to maintain the empathy for the United States many have developed during their studies and to correct the misconceptions of America that arise when seen through the filter of Arab values.

#### Summary of Specific Policy Recommendations

##### Smoothing the Diplomatic Relationship

- a. Carefully weigh our interests in Saudi Arabia when formulating general Middle Eastern policy, particularly arms policy.
- b. Maintain the dialogue between the Ambassador and senior Saudi leaders; encourage visits of high-ranking officials from both countries. Specifically, a visit to the United States by King Faisal would be appropriate in 1971.

##### Continued Access to Saudi Oil

- a. Maintain close consultation with Aramco, secure adequate information and understanding by the Saudi government of oil company problems, and be prepared to assist in maintaining an effective dialogue between the company and the host government. Our role should be to help maintain the existing mutual trust and counsel against any precipitate action which might harm this relationship and the interests it represents.
- b. When evaluating policy alternatives, consider the possibility of action against our interests in an atmosphere of general Middle East tension.

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*Patricia  
Paterson*

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d. Through contacts with SAMA and other government agencies, encourage investment of reserves in dollar instruments; encourage use of Export-Import Bank and private American bank financing where appropriate.

American Expertise to Foster Orderly Development

- a. Provide high-quality reimbursable USG technical assistance, both short and long-term, in well-conceived projects where private American reimbursable assistance is not suitable or available.
- b. Encourage experienced American firms to participate in sound military and economic development projects with high-quality technical expertise.
- c. Continue to search for ways to provide salary-topping where a specific USG benefit exists.
- d. Carefully review the Development Plan to find areas for greater U.S. participation in economic development projects relative to military ones.

Influencing Saudi Foreign Policy

- a. Continue to encourage a responsible but restrained Saudi foreign policy in the area, assisting its moderate friends in Yemen, Jordan, Lebanon, Ethiopia, and the Gulf and avoiding over-involvement with dissident elements in radical Arab countries.
- b. Continue to encourage a responsible Saudi government attitude toward the Arab-Israel issue which avoids direct involvement in this issue.
- c. Specifically encourage the now more active and positive Saudi policy in the Gulf, including the possibility of Saudi funding for technical assistance.
- d. Display understanding for the King's Pan-Islamic policies while avoiding any visible role for the USG.

Influencing Saudi Opinion

- a. Maintain our close dialogue with the Saudi media to moderate anti-American feelings and to accurately portray American policy. Expose key Saudis to information about the United States (books, films, periodicals).

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b. Maintain our dialogue with the Saudi military through the Training Mission and with information and academic circles through USIS and other Embassy contacts.

c. Encourage efforts of non-Embassy resident Americans to develop respect for the United States, its values and technology.

d. Maintain contacts with the growing element of returning graduates of American universities through USIS programs and Embassy contacts. Encourage development of contacts between American and Saudi educators.

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