

1971-4-1, Fiscal, US, Relations

2	10	15
PM	9/5	0/F/51
AGR	10	3
INT	LAB	TAR
TR	XMB	AIR
ARMY	4	5
OSD	5	5
	CIA	NAVY
	28	5
	USA	NSA
	10	3
34	ACDA	NSC
	17	6

RS/AN - Hano

1971 APR 6 PM 4 30

CCPYFLO-PBR

FROM : Amembassy JIDDA

DATE: April 1, 1971

SUBJECT : U.S. Policy Assessment: Saudi Arabia 1971

REF : CERP-0001, 11 FAM 212.3-5; JIDDA A-61, March 31, 1970

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.

GROUP 1
SECRET/NOFORN

FORM DS-323
4-02

FOR DEPT. USE ONLY
 In Out

Drafted by: POL/ECON: DGM
11P 3/31/71

Contents and Classification Approved by: DCM:WAS to [Signature]

Clearances: AMBASSADOR (draft)
COUNTRY TEAM (draft)

SECRET/NOFORN

2

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.

SECRET/NOFORN

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,