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SAUDI ARABIA

A REPORT

BY

Senator MIKE MANSFIELD

Majority Leader, United States Senate

TO THE

COMMITTEE ON FOREIGN RELATIONS
UNITED STATES SENATE



OCTOBER 1975

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(II)

LETTER OF TRANSMITTAL

OCTOBER 21, 1975.

Hon. JOHN SPARKMAN,
Chairman, Committee on Foreign Relations, U.S. Senate,
Washington, D.C.

DEAR MR. CHAIRMAN: As you know, during the August recess of the Congress, with the concurrence of the President, I undertook official visits to a number of countries where changes are taking place that will have a major impact on United States foreign policy. Pursuant to these visits, I have previously transmitted for the use of the Committee reports on Portugal and Southeast Asia. This third and final report, on Saudi Arabia, is hereby transmitted for the use of the Committee. Confidential reports on these areas have already been submitted to the President.

No country has assumed such world-wide importance in such a short time as Saudi Arabia. However, Saudi Arabia is important to the United States for more than its oil. It is a critical factor in the search for peace in the Middle East and for maintaining regional stability. I explored these and other aspects of U.S.-Saudi relations during the course of my recent visit to that country.

I hope that this report will be helpful in creating better understanding of developments and problems in that area.

I want to express my appreciation to the Department of State for background documents, for the support of U.S. officials at each stop, and for the able assistance of Mr. Louis Schwartz who handled administrative arrangements; to the Department of the Air Force for arranging transportation; to the Congressional Research Service of the Library of Congress for the preparation of background materials; and to Dr. Thomas Lowe of the Office of the Attending Physician of the Capitol for his able services. From the Senate I had the assistance of Mrs. Salpee Sahagian, the Administrative Assistant to the Majority Leader; Mr. Frank Valeo, Secretary of the Senate, who, as a former consultant to the Senate Committee on Foreign Relations, has accompanied me on many past overseas missions; and Mr. Norvill Jones, Staff Associate of the Committee on Foreign Relations. I am also deeply appreciative of the support and assistance of my wife, Maureen.

Sincerely,

MIKE MANSFIELD.

(III)

LETTERS OF FRANKLIN

1757-1790

These letters are the most valuable and interesting collection of the correspondence of the great statesman and philosopher. They are arranged in chronological order, and are accompanied by a full and complete index. The letters are written in a clear and elegant hand, and are of great value to the student of history and politics. They are also of great interest to the general reader, as they give a full and complete picture of the life and times of the great statesman and philosopher.

Mrs. L. M. L.

1790

SAUDI ARABIA

INTRODUCTORY—OIL AND POLITICS

Although oil and water may not mix, oil and politics have combined to make a heady brew in the Middle East. Saudi Arabian petroleum is the key ingredient. No country has assumed such world-wide importance in such a short time as Saudi Arabia. For the foreseeable future, its importance will continue to grow. Today, oil is money and power and Saudi Arabia sits atop perhaps half of the world's known and most easily retrievable oil reserves. More than four times as much new oil is discovered there each day as is taken out of the ground. Saudi Arabia means more than a giant pool of oil. It is also a critical factor in the search for peace in the Middle East and it could be a potent force for stability in that area. At the same time, it is also a possible nexus for a major world crisis.

ECONOMIC AND POLITICAL ASPECTS

In Saudi Arabia, there has not been an extra legal shift of power since the Kingdom was formed in 1932. When King Faisal was killed in March of 1975, there was much speculation on the ability of the country to weather the change. Many observers predicted that in the aftermath of the King's death the leadership would split into struggling factions and the authority of the Royal family would begin to disintegrate. However, King Khalid's succession to the throne was without panic or discernible division. An absolute autocracy on paper, the nation is actually governed by consensus of the royal family which, with some 3,500 male members, permeates all of Saudi Arabia.

There is a strata of competent continuity in the upper echelons of the government, with most of the ruling princes having served in their functions for ten years or more. The competence and growing experience of Saudi officials, when linked with massive new wealth, has brought about a situation in which Saudi Arabia is probably better prepared than generally believed to carry out an expanding role in world affairs. Certainly, in this respect, officials exude an air of confidence.

Saudi Arabia's changing international position is reflected close to home in improved relations with surrounding Arab nations. This would appear to be due, at least in part, to the judicious dissemination by Saudi Arabia of a \$3 billion annual foreign aid program. In any event, the threat to the Kingdom on its periphery from hostile regimes has abated.

The Saudi government whose total 1973 operating budget was only \$4.7 billion, has initiated a \$140 billion five-year internal development program designed to lead to an industrial society. As King Khalid expressed the hope: "One day, revenues from our industries will be equal to revenues from our oil." The task implicit in such a transition is monumental. It involves the thorough-going transformation of what

has been virtually a medieval society into a contemporary industrial state. In the streets of Jeddah, Saudi Arabia's largest city, one can still see flocks of goats amidst automobile traffic jams which are fueled by gasoline at 11¢ per gallon. Modernization will impose great strains on a society which abolished slavery only twelve years ago, which still bars women from driving cars and enforces purdah, and where, until recently, men regarded work with the hands as demeaning.

There is only a total of some 5.6 million people throughout the vastness of Saudi Arabia's approximately 850 thousand square miles (most of its boundaries are as yet undefined) and only about 4 million of the inhabitants are actually Saudis. The remainder is composed largely of immigrant labor, principally from North Yemen, Egypt, the Sudan, and what was formerly Palestine. It is estimated that there are about as many male Yemeni workers (750,000-900,000) in the country as there are adult Saudi males (750,000-1,000,000). Many of the most able bodied of the latter are in the armed forces.

To carry out current Saudi development plans, it will be necessary to bring in additional foreign workers of all kinds, from managers to laborers.¹ The estimate of requirements runs from 500,000 to 1.5 million during the next five years even though investment will be concentrated in capital intensive industries. In speaking of new educational and training facilities, the King stated frankly: "We need help in so many areas. There is not even enough housing for those who come to work here."

The Saudi government has handled its vast new oil revenues conservatively. In 1974 the Saudi intake from oil was \$22.6 billion, an 80 percent increase over 1972. Its financial surplus is growing by about \$12-\$15 billion a year and is largely invested in the United States. Earlier fears of a wholesale takeover of U.S. industry by a massive inflow of Saudi-held and other petrodollars, however, seem to have eased. U.S. exports to Saudi Arabia were over \$1 billion in 1974, about 35 percent of the Saudi market, and are growing rapidly.

Some 20,000 Americans are now in the country, and all signs point to a great increase as a result of an accelerating involvement by U.S. industry in Saudi Arabia's five-year plan. There is a U.S.-Saudi Joint Commission for Economic Cooperation although the results of its work to date have been minimal.

The Saudis are greatly concerned over the possibility of communist penetration. Saudi Arabia has no diplomatic contacts with any communist country and is one of the few nations which still recognizes Taiwan as the government of China. As the custodians of Islam's holiest shrines, Mecca and Medina, Saudi officials feel a deep obligation to prevent the intrusion of an ideology which encourages atheism. "All Muslims look at Saudi Arabia with reverence because of the religious shrines here," Crown Prince Fahd said. "That imposes on us a special responsibility to make sure that no ideology incompatible with Islam is practiced in this country." He added that one major objective of the government's development effort was so to improve the lot of the people that they would be less susceptible to a "foreign ideology."

¹ The labor problem is exemplified by the palace in Jeddah where conversations were held with King Khalid. Recently constructed, it is said to have been built primarily by Egyptians and Yemenis.

THE MIDDLE EAST PROBLEM

No topic so dominated conversations with Saudi officials as the Arab-Israeli conflict. It was apparent from these talks that Saudi Arabian policy has shifted to the point where Israel's right to exist is no longer questioned. As to basic feelings about Jews, moreover, the point is now stressed that Arabs and Jews are "Semitic cousins," springing from the tree of Abraham and reference is made to the fact that prior to the present schism, Jews co-existed without difficulty with Muslims throughout the Arab world.

Saudi officials spoke highly of President Ford's and Secretary Kissinger's efforts to find a solution, although at the time of my visit, they did not believe that the United States had used the two years since the war to full advantage. In their view, only the United States, not the Soviet Union, can solve the problems posed by the Arab-Israeli confrontation. In their view, too, notwithstanding the fact that the United States professes to have an unbiased policy, Congressional action suggests to them a pro-Israel bias. The letter to President Ford, signed by seventy-six members of the Senate, urging Administration backing for Israel's foreign aid request, was cited repeatedly as evidence of Israeli influence on U.S. policy.

The Saudis were concerned with the embargo on arms to Turkey which was in effect at the time of my visit as creating a possible opening for the spread of Soviet influence in the region. They were also disturbed by the U.S. refusal to go ahead with the proposed sale of Hawk missiles to Jordan. They feared that Jordan would be forced to look to Moscow for arms, further extending Soviet influence in the Middle East. Developments such as these, the Saudis argue, give credence to assertions that the Soviet Union is the only nation willing to help the Arab world against Israel.

In the late summer of 1975, time appeared to be running out in the Middle East. Although no one put a time frame on the likelihood of an outbreak of a new war, all with whom I talked said that unless there were substantial progress towards a settlement a renewal of fighting would be inevitable.² "It is not," Crown Prince Fahd stressed, "in the interest of the free world to have another conflict. No one but the enemies of the United States will benefit by a new war."

OIL AND U.S. INTERESTS

Saudi Arabia's oil fields, with as much as 460 billion barrels in reserves, now pump some 7 million barrels a day. Productive capacity is 11 million barrels a day and can be expanded to as much as 20 million by 1980. The price of Saudi petroleum is fixed by O.P.E.C., the international cartel of the oil producing nations. As the prices have been pushed higher and higher, income from Saudi exports of petroleum has reached fantastic levels. Although only 12 percent of U.S. oil imports in 1974 came from Saudi Arabia, if present trends persist our reliance on that country's petroleum will grow in the years ahead.³ The United States now imports, world-wide, an average of about 6.5 million barrels per day. This total could climb to nine million by the end of 1977.

² There was, at the time, a general recognition of the high stakes involved in the effort of the U.S. Secretary of State to bring about the agreement between Egypt and Israel which was subsequently achieved.

³ See the table in the appendix for the oil sources of major consuming nations.

The Saudi government has acquired 60 percent ownership of Aramco, the U.S. private combine that produces all petroleum in Saudi Arabia proper and has indicated its intention to take control of 100 percent of the stock. Although, U.S. diplomatic personnel seem to have little knowledge of the significance or details of this transfer, apparently it has been an amicable arrangement between the Company and Saudi Arabia. Under Saudi ownership, Aramco will continue, under contract, to run things as usual.

It should be noted that Saudi Arabia need produce only 3.5 million barrels per day to finance its development plans and pay government operating expenses. The income from the remainder of its current production is surplus to the present internal requirements of the Kingdom, although not entirely to its rising international political understandings.

What is "surplus" to Saudi Arabia's needs is vital to many industrial nations. Saudi officials assured me of that they were fully cognizant of these needs and desired to cooperate with other nations. Some expressed the hope that a basis could be found for a new relationship between oil consumers, producers, and the developing world. Others recognized that while such an arrangement might be possible, it would take a long time to bring about, "perhaps two or three years."

President Ford's public assurance a few months ago that the United States was not contemplating a military takeover of oil fields in the event of another cut-off of Saudi exports, was well received. Much concern was expressed, however, about earlier, and what were interpreted to be militant, statements on this subject by the Secretary of State and the Secretary of Defense. These statements were seen as implied threats which, inexplicably, even after the President's subsequent reassurances, were repeated by the Secretary of the Treasury.

Aside from international and moral considerations, in my judgment, any U.S. military action to force out Saudi oil would find the highly sophisticated technology of the oil fields so badly sabotaged that it would probably be years before the wells could be put back into operation on any significant scale. Saber rattling, in short, will do nothing to bring about a solution posed by the oil producers' cartel anymore than it will serve the ends of peace in the Middle East. The best counter to arbitrary practices on the part of any economic combine, in my judgment, is not military threat, embargo or political manipulation. Rather, it is to be found in conservation at home, diversification of sources and the development of substitutes.

SECURITY ISSUES

My arrival in Jeddah followed a short time after the Senate's rejection of a resolution sponsored by Senator Culver, myself, and others, to prevent the expansion of the existing U.S. communications facility on the small island of Diego Garcia in the Indian Ocean into a full-fledged U.S. military base. The development of the base is not welcomed in Saudi Arabia. It is seen as a move which is likely to turn the Indian Ocean into another arena of U.S.-Soviet military competition and the Saudis do not "want a military struggle between the super-powers in our area." Even if a military competition were not to develop, they would still be concerned over the possibility of a U.S.-Soviet

"deal" which would trade Soviet acquiescence in the U.S. presence on Diego Garcia for U.S. acceptance of a Soviet military establishment in Berbera, Somalia. Saudi Arabia would then confront the military forces of both powers in its immediate vicinity.

Saudi policy has shifted on the basing of U.S. naval vessels on the island of Bahrein in the Persian Gulf. It no longer supports extension of the U.S. leasing arrangement.

In the current Saudi view, regional security can be handled by regional nations and, along with Iran and other Gulf states, Saudi Arabia has embarked on an ambitious military buildup. Arms sales to the Gulf region have skyrocketed in recent years and accompanying this growth has been a significant new involvement of the United States in Saudi affairs. Last year Saudi Arabia purchased \$1.37 billion in military equipment and services from the United States. Several thousand uniformed U.S. military, civilian employees of the Department of Defense, and U.S. contract technicians are now working on military-related matters in Saudi Arabia. The number is expected to increase since purchases of equipment are growing and the United States is the preferred supplier.

In my judgment, involvement by U.S. military personnel, or other government employees in Saudi Arabia and in the Middle Eastern countries generally should be avoided. Furthermore, the rapid rise in the numbers of contract military personnel should be thoroughly studied as a factor deepening our involvement in Saudi Arabia's internal affairs as well as for its impact on our over-all relations with the region. Indeed, the Committee on Foreign Relations should pursue vigorously its examination of all aspects of arms merchandising, especially in the Middle East. In some respects, that region offers something of a bonanza for governments desperately seeking to generate foreign exchange to pay for the increased costs of petroleum by unloading weapons of all kinds. This practice, lucrative as it may be for a few and helpful as it seems in solving balance-of-payments problems, may one day rebound to the detriment of the nations which are pursuing it. In the unabashed eagerness to cash in on the burgeoning Middle East arms market, there appears to be an obliviousness to the implications of this vast new spread of weapons for the stability of the region and the peace of the world. In the Middle East, governments sometimes give the impression of acting as contemporary Sir Basil Zaharoffs.

CONCLUDING OBSERVATIONS

Saudi Arabia is the focus of an energy-hungry world. At the same time, its government is developing into a major holder of the world's financial reserves. Access to the vast sea of petroleum which underlies the Kingdom and the financial power which it yields is now sought by many nations in many ways. Saudi policies seem to be adjusting to this situation. In any event, these policies appear to be designed to contribute to the creation of political stability and economic progress among the Arab nations in the region and to sustain the efforts of the Egyptians to achieve with the help of the United States a peace settlement with Israel. Indeed, on the basis of my conversations there is ample reason to believe that the Saudis are prepared for a prompt resolution of the Arab-Israeli confrontation.

Saudi Arabia is also seeking greater diversification in its relationships abroad. In this connection, there is, of course, their cooperation

with other oil producing states in O.P.E.C. In addition, Western Europeans and the Japanese are being involved in increasing numbers in development projects inside Saudi Arabia. Such a trend, in my judgment, is to be welcomed. A U.S. economic or political monopoly is neither possible nor desirable in the situation which has emerged in Saudi Arabia. The heretofore top-heavy ties with the United States and, for all practical purposes, only with a segment of one U.S. industry have become something of an anomaly.

Notwithstanding, Saudi Arabia's enlarging international contacts, there is a reservoir of good feeling towards the United States which is very ample to support highly beneficial mutual relations. The United States is not in danger of being invited to leave the scene. The fact is, moreover, that the President and the Secretary of State have stressed, repeatedly, by actions and words, a commitment on the part of this nation to the preservation of peace in the Middle East.

Whatever the extent of that commitment, in my judgment, the security of all the nations in that region ultimately rests not on military might or buffer zones, but on mutual acceptance, especially as between Israel and the Arab nations. On an interim basis, the course which this nation follows can be critical in bringing about that acceptance. I would emphasize, however, that that applies only on an interim basis. In the end what must be sought are acceptable understandings between the principal parties themselves and agreements which can be guaranteed at least by the Security Council of the United Nations. In this age of the nuclear missile, there is no such thing as durable security in the Middle East or anywhere else on the basis of unilateral military strength not even the military strength of the United States.

"The true wish of my country," Crown Prince Fahd stated, "is to have the strongest and most cooperative relations with the United States in all fields and all matters." It is reassuring to have that expression and one would hope to see it extended in due course to embrace Israel and all other nations whose future is interwoven with the Middle East. What is at stake, is more than petroleum. It may well be, in the last analysis, the well-being and the peace of the entire world.

APPENDIX

ESTIMATED IMPORTS OF CRUDE OIL AND REFINED PRODUCTS, TRACED TO THE ORIGINAL SOURCE, 1974

[Thousand barrels per day and percent of imports]

	Total Arab and non-Arab	Arab countries							
		Total	Saudi Arabia	Kuwait	Libya	Iraq	United Arab Emirates	Algeria	Other
United States.....	6,090	1,250	740	20	150	10	90	200	40
Percent.....	100	20.5	12.2	0.3	2.5	0.2	1.5	3.3	0.7
Japan.....	5,230	2,810	1,380	590	70	50	540	10	170
Percent.....	100	53.7	26.4	11.3	1.3	1.0	10.3	0.2	3.3
Canada.....	1,000	210	100	20	10	10	30	10	30
Percent.....	100	21.0	10.0	2.0	1.0	1.0	3.0	1.0	3.0
Western Europe ¹	14,400	9,320	4,410	1,090	1,260	880	720	540	420
Percent.....	100	64.7	30.6	7.6	8.8	6.1	5.0	3.8	2.9
United Kingdom ¹	2,380	1,530	720	350	180	60	110	10	100
Percent.....	100	64.3	30.2	14.7	7.6	2.5	4.6	0.4	4.2
West Germany ¹	2,210	1,440	510	90	350	80	180	190	40
Percent.....	100	65.2	23.1	4.1	15.8	3.6	8.1	8.6	1.8
Italy ¹	2,400	1,990	770	230	550	280	50	60	-----
Percent.....	100	82.9	32.1	9.6	22.9	11.7	2.1	2.5	-----
France.....	2,650	2,100	840	250	70	340	300	180	120
Percent.....	100	79.2	31.7	9.4	2.6	12.8	11.3	6.8	4.5
Netherlands ^{1 2}	1,260	90	50	20	10	Negl.	10	Negl.	Negl.
Percent.....	100	7.1	4.0	1.6	0.8	Negl.	0.8	Negl.	Negl.
Belgium-Luxembourg.....	600	440	300	60	40	-----	-----	-----	40
Percent.....	100	73.3	50.0	10.0	6.7	-----	-----	-----	6.7
Spain ^{1 3}	900	780	520	40	40	60	-----	70	50
Percent.....	100	86.7	57.8	4.4	4.4	6.7	-----	7.8	5.6
Other ¹	2,000	950	700	50	20	60	70	30	20
Percent.....	100	47.5	35.0	2.5	1.0	3.0	3.5	1.5	1.0
Non-Arab countries									
	Total	Iran	Venezuela	Indonesia	Canada	Nigeria	Ecuador	Other	
United States.....	4,840	710	1,450	300	1,050	840	70	420	
Percent.....	79.5	11.7	23.8	4.9	17.2	13.8	1.2	6.9	
Japan.....	2,420	1,240	10	760	-----	90	-----	320	
Percent.....	46.3	23.7	0.2	14.5	-----	1.7	-----	6.1	
Canada.....	790	200	450	-----	-----	20	10	110	
Percent.....	79.0	20.0	45.0	-----	-----	2.0	1.0	-----	
Western Europe ¹	5,080	2,180	270	-----	-----	1,100	-----	1,530	
Percent.....	35.3	15.1	1.9	-----	-----	7.6	-----	10.6	
United Kingdom ¹	850	290	70	-----	-----	160	-----	330	
Percent.....	35.7	12.2	2.9	-----	-----	6.7	-----	13.9	
West Germany ¹	770	260	50	-----	-----	220	-----	240	
Percent.....	34.8	11.8	2.3	-----	-----	10.0	-----	10.9	
Italy ¹	410	270	20	-----	-----	Negl.	-----	120	
Percent.....	17.1	11.2	0.8	-----	-----	-----	-----	5.0	
France ¹	550	170	30	-----	-----	210	-----	140	
Percent.....	20.8	6.4	1.1	-----	-----	7.9	-----	5.3	
Netherlands ^{1 2}	1,170	800	10	-----	-----	300	-----	60	
Percent.....	92.9	63.5	0.8	-----	-----	23.8	-----	4.8	
Belgium-Luxembourg ¹	160	90	-----	-----	-----	-----	-----	70	
Percent.....	26.7	15.0	-----	-----	-----	-----	-----	11.7	
Spain ^{1 3}	120	60	30	-----	-----	-----	-----	30	
Percent.....	13.3	6.7	3.3	-----	-----	-----	-----	3.3	
Other ¹	1,050	240	60	-----	-----	210	-----	540	
Percent.....	52.5	12.0	3.0	-----	-----	10.5	-----	27.0	

¹ Excluding intra European oil product trade.

² Excluding oil transshipped to other European countries.

³ Including Canary Islands.

Source: International Oil Developments, July 10, 1975, CIA.

