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# Saudi Arabia: Background and U.S. Relations

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## Summary

The kingdom of Saudi Arabia, ruled by the Al Saud family since its founding in 1932, wields significant global political and economic influence as the birthplace of the Islamic faith and by virtue of its large oil reserves. Close U.S.-Saudi official relations have survived a series of challenges since the 1940s, and, in recent years, shared concerns over Al Qaeda-inspired terrorism and Iranian regional ambitions have provided a renewed logic for continued strategic cooperation. The ongoing political upheaval in the Middle East and North Africa is changing the dynamics of long-running reform debates in the kingdom. The full effect of these events on the kingdom and on U.S.-Saudi relations has yet to be determined. Official U.S. concerns about human rights and religious freedom in the kingdom persist, and some Members of Congress have expressed skepticism about Saudi leaders' commitment to combating religious extremism and sharing U.S. policy priorities in the Middle East and South Asia. However, Bush and Obama Administration officials have referred to the Saudi government as an important regional partner in recent years, and U.S. arms sales and related training programs have continued with congressional oversight. Since October 2010, Congress has been notified of proposed sales to Saudi Arabia of fighter aircraft, helicopters, missile defense systems, missiles, bombs, armored vehicles and related equipment and services, with a potential value of more than \$86 billion.

At home, Saudi leaders are weighing a litany of economic and political reform demands from competing, energized groups of citizen activists. The prevailing atmosphere of regional unrest and increased international scrutiny of domestic political developments further complicates matters. Groups representing liberal, moderate, and conservative trends have submitted advisory petitions to King Abdullah bin Abdelaziz, and many recent reform statements refer to and echo past requests submitted to the king and his predecessor, the late King Fahd. Initiatives to organize nationwide protests have been met with some popular criticism and official rejection, while local protests over discrete issues occur sporadically. Some observers fear that public confrontations with unpredictable consequences may result from the apparent incompatibility of a ban on all demonstrations and the enthusiasm of different activist groups, including Shiite citizens of the Eastern Province, government employees, students, and relatives of prisoners and terrorism suspects. The Obama Administration has endorsed Saudi citizens' rights to free assembly and free expression. Saudi leaders reject foreign intervention in the country's internal affairs.

Since taking power in 2005, King Abdullah has created some public space for domestic social reform debates and has promoted the concept of a strong national identity among Saudis in the face of a determined domestic terrorism campaign. Succession arrangements have attracted particular attention in recent years, as senior leaders in the royal family, including the king, have faced health crises, and the deaths of two crown princes have raised questions about the transition to the next generation of the Al Saud family. Robust oil export revenues have strengthened the kingdom's economic position over the last decade and provide Saudi leaders with significant financial resources to meet domestic investment needs and provide new social benefits. Current U.S. policy seeks to coordinate with Saudi leaders on regional issues and help them respond to domestic economic and security challenges. It remains to be seen whether U.S. initiatives and, more importantly, Saudi leaders' efforts will ensure stability. Shared challenges have long defined U.S.-Saudi relations, and questions about political, economic, and social reform may become more pertinent in light of the calls for change that are now swirling around the kingdom.

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## Overview

In spite of apparent differences of opinion over regional developments, U.S.-Saudi security cooperation continues to anchor official bilateral relations as it has for decades, bolstered by major new arms sales, continued security training arrangements, enhanced counterterrorism cooperation, and shared concerns about Iran and Al Qaeda. Since late 2012, the Administration has notified Congress of over \$20 billion in proposed arms sales to the kingdom including proposed sales that would continue long-established training programs and deliver advanced stand-off air weaponry to equip Saudi purchased U.S.-fighter aircraft. Ongoing joint efforts to build stronger economic, educational, and interpersonal ties are intended to broaden the basis of the bilateral relationship and help meet the economic demands and aspirations of the kingdom's young population for employment and more social freedom. The Obama Administration, like its predecessors, has engaged the Saudi government as a strategic partner to promote regional security and global economic stability. Current U.S. policy initiatives seek to help Saudi leaders, under the leadership of King Abdullah bin Abdelaziz, address economic and security challenges.

It remains to be seen whether these U.S. initiatives and, more importantly, Saudi leaders' own choices will enable the kingdom to meet the energy consumption, education, employment, and security needs that its citizens face. The kingdom's considerable financial clout and its deepening energy ties to important U.S. trading partners in Asia are important factors for U.S. and Saudi decision makers to consider when assessing the future of the bilateral relationship. Significant shifts in the political and economic landscape of the Middle East also have focused greater international attention on Saudi domestic policy issues and reinvigorated social and political debates among Saudis. These shifts may make sensitive issues such as political reform, unemployment, education, human rights, corruption, religious freedom and extremism more important to U.S.-Saudi relations than in the past. However, the history of these bilateral ties suggests that any official U.S. criticisms of the kingdom's restrictive political and social environment or any perceived failings by the Saudi government to live up to its reform or counterterrorism commitments are likely to remain subjects of private diplomatic engagement rather than public discussion. Leaders in both countries have long prioritized continuity over policy differences in the face of controversy and some Saudis' and Americans' calls for change.

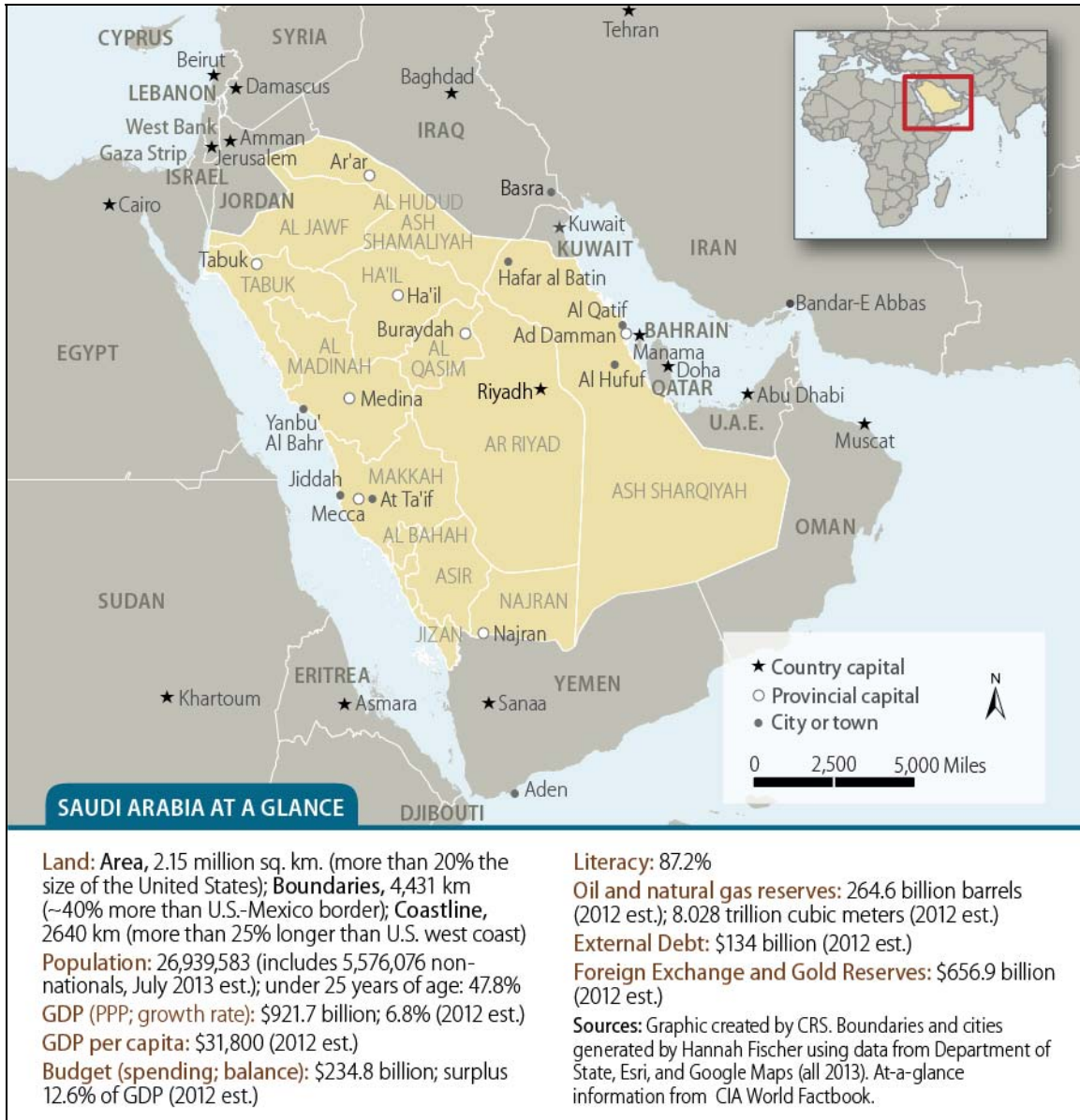
## Social Change, Unrest, and Succession

U.S. government statements warn of ongoing terrorist threats in Saudi Arabia, but do not indicate that U.S. officials expect large-scale public unrest to emerge in the near term.<sup>1</sup> U.S. officials have credited King Abdullah's government with taking a more responsive and transparent approach to citizens' concerns than those of his predecessors. Nevertheless, decision making in the kingdom reflects consensus among a closed elite dominated by aging members of the Al Saud family. The government seeks to manage increasingly vocal and public demands for improved economic opportunities, political rights, and improved social conditions while security forces monitor and tightly limit political activity and social activism. The government launched large scale social spending programs targeting housing and unemployment in response to popular demands since 2011, and has expelled hundreds of thousands of foreign workers to boost employment of Saudis.

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<sup>1</sup> U.S. Department of State Bureau of Consular Affairs, Travel Warning - Saudi Arabia, July 25, 2013.

**Figure I. Saudi Arabia: Map and Country Data**



King Abdullah recognized women's right to vote and stand as candidates in 2015 municipal council elections and expanded the size of the national Shura Council to include 30 women in the 2013 session. These moves, while controversial in the kingdom, have been seen by some outsiders as signs that managed, limited political and social reforms are possible. Certain gender-rights issues have not been resolved: Saudi officials arrested some individuals associated with recent protests by advocates for Saudi women's right to drive.

Periodic clashes involving the Shia minority in the oil-rich Eastern Province (see Ash Sharqiyah in Figure 1 below) and low-level protests by students and families of security and political detainees create continuing strains on public order and overall stability. Saudi authorities continue to pursue a list of young Shia individuals wanted in connection with protests and clashes with security forces in the Eastern Province. In March 2013, Saudi authorities convicted two prominent human rights activists and advocates for detainee rights, Mohammed al Qahtani and Abdullah al Hamid, on a range of charges, including "breaking allegiance" to the king.<sup>2</sup>

Recently-retired U.S. Ambassador James Smith attributes what he views as an atmosphere of tension and anxiety among some Saudis and their leaders to the range of economic, social, political, and foreign policy challenges that the kingdom faces. In October 2013, he said that:

...on one hand you have those [Saudis] with a deep and abiding confidence in the kingdom — its religion, its culture, and they're excited about the future. On the other hand you have those who are deeply worried that somehow the culture is weak, that it is vulnerable, that social change might erode the very fabric of their society. The chorus of caution feels the need to control events, to keep out new ideas and outside views as if the proud heritage will be threatened. ...As the Saudi leadership scans the neighborhood they see an uncertain future, political instability, economic chaos, refugee flows, and meddling from Iran and other regional players. Domestically they see a demand for jobs, the need for energy alternatives, and requests for more freedom and opportunity. They have a full plate.<sup>3</sup>

Saudi leaders are likely to continue to face complex questions about political consent, economic performance, and social reform while managing leadership transitions expected to transfer power from the sons of the kingdom's founder, King Abdelaziz, to his grandsons. King Abdullah and the Al Saud appear to have managed recent leadership transition decisions smoothly, and an Allegiance Council made up of senior family members has been established to make transition decisions after King Abdullah's reign ends. The Council is untested, but there are no clear indications that the royal family is poised to revert to the type of competition that characterized intra-family relations in the mid-20<sup>th</sup> century, dividing supporters of King Saudi and King Faisal.

Crown Prince Salman bin Abdel Aziz now also serves as Defense Minister, after serving as the governor of Riyadh for decades. Many observers consider Second Deputy Prime Minister Prince Muqrin bin Abdelaziz, who last served as director of Saudi intelligence, to likely serve as the next Crown Prince in the event of a vacancy and to be perhaps the last of the sons of King Abdelaziz to have the potential to become king. King Abdullah's son Prince Miteb bin Abdullah and Prince Mohammed bin Nayef (son of the late Crown Prince and long serving Minister of Interior Nayef

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<sup>2</sup> According to Amnesty International, the defendants were convicted on charges including "breaking allegiance to and disobeying the ruler, questioning the integrity of officials, seeking to disrupt security and inciting disorder by calling for demonstrations, disseminating false information to foreign groups and forming an unlicensed organization." Amnesty International, "Saudi Arabia punishes two activists for voicing opinion," March 11, 2013.

<sup>3</sup> Ambassador James Smith (ret.), Remarks at National Council on U.S. Arab Relations Conference, October 2013.



bin Abdelaziz) lead the security forces of the Ministries of the National Guard and Interior. Other grandsons of King Abdelaziz, such as Prince Bandar bin Sultan and Prince Salman bin Sultan, also shape the kingdom's national security and defense policies in their leadership roles in the intelligence service and the Ministry of Defense. One critic of the Saudi monarchy has warned that the division of security ministries among leading princes is an indicator that the future could reflect "a kingdom with multiple heads" and "a decentralized monarchy consisting of multiple fiefdoms."<sup>4</sup> The ability of the monarchy's next generation to successfully manage their relationships with each other and with competing domestic interest groups is among the factors likely to determine the country's future stability, with direct implications for regional stability and U.S. national security and economic interests.

## Arms Sales and Military Training

A series of high-value U.S. proposed arms sales to Saudi Arabia have been announced in the wake of the 2010 announcement that the Royal Saudi Air Force (RSAF) would reconstitute and expand its main fighter forces with advanced U.S. F-15 aircraft. The F-15 sale will perpetuate the reliance of the RSAF (the elite military service in the country) on material and training support provided by the United States military and U.S. defense contractors. The RSAF sale and others will guide the immediate future of the United States Military Training Mission (USMTM) in Saudi Arabia and the Saudi Arabian National Guard Modernization Program (PM-SANG), which have been active under special bilateral agreements and funded by Saudi purchases since the 1950s and 1970s, respectively. The sales would considerably improve the capabilities of the Saudi armed forces, and appear to be seen by decision makers on both sides as symbolic commitments to cooperation during a period of generational leadership change.

## U.S. Foreign Assistance to Saudi Arabia

The Obama Administration requests appropriations of small amounts of International Military Education and Training assistance funding for Saudi Arabia (approximately \$10,000) in its annual budget requests. This nominal amount makes Saudi Arabia eligible for a substantial discount on the millions of dollars of training it purchases through the Foreign Military Sales program.<sup>5</sup> In prior years, Congress has enacted prohibitions on IMET and other foreign assistance to Saudi Arabia in annual appropriations legislation, subject to waiver provisions, and the Bush and Obama Administrations subsequently issued national security waivers enabling the assistance to continue. Saudi officials have been privately critical of the congressional prohibitions and appear to prefer to avoid contentious public debate over U.S. foreign assistance, arms sales, and security cooperation. The Saudi-funded nature of the U.S. training reflects Saudi Arabia's ability to pay for the costly programs. It may also point to a shared view among Saudi leaders and successive U.S. Administrations that U.S.-funded programs would be more vulnerable to potential congressional scrutiny and pressure.

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<sup>4</sup> Madawi al Rasheed, "Saudi Arabia's Unpredictable Succession Plan," *Al Monitor* (blog), April 23, 2013.

<sup>5</sup> The Administration argues that the discount supports continued Saudi participation in U.S. training programs and this participation supports the maintenance of important military-to-military relationships and improves Saudi capabilities. The conference report for H.R. 3288 (H.Rept. 111-366) required the Administration to report to Congress within 180 days (by June 14, 2010) on the net savings this eligibility provides to Saudi Arabia and other IMET recipients.

**Table I. Proposed U.S. Defense Sales to Saudi Arabia**

October 2010 to December 2013, \$ billion

Formal Notification Date	System	Recipient Force	Estimated Cost
October 2010	F-15 Sales, Upgrades, Weaponry and Training	RSAF	\$29.400
October 2010	APACHE, BLACKHAWK, AH-6i, and MD-530F Helicopters	SANG	\$25.600
October 2010	APACHE Longbow Helicopters	RSLF	\$3.300
October 2010	APACHE Longbow Helicopters	Royal Guard	\$2.200
November 2010	JAVELIN Missiles and Launch Units	--	\$0.071
May 2011	Night Vision and Thermal Weapons Sights	RSLF	\$0.330
June 2011	CBU-105D/B Sensor Fuzed Weapons	RSAF	\$0.355
June 2011	Light Armored Vehicles	--	\$0.263
June 2011	Light Armored Vehicles	SANG	\$0.350
September 2011	Howitzers, Fire Finder Radar, Ammunition, HMMWVs	--	\$0.886
October 2011	Up-Armored HMMWVs	RSLF	\$0.033
December 2011	PATRIOT Systems Engineering Services	--	\$0.120
August 2012	RSAF Follow-on Support	RSAF	\$0.850
August 2012	Link-16 Systems and ISR Equipment and Training	RSAF	\$0.257
November 2012	C-130J-30 Aircraft and KC-130J Air Refueling Aircraft	RSAF	\$6.700
November 2012	RSLF Parts, Equipment, and Support	RSLF	\$0.300
November 2012	PATRIOT (PAC-2) Missiles Recertification	RSADF	\$0.130
June 2013	SANG Modernization Program Extension	SANG	\$4.000
July 2013	Mark V Patrol Boats	RSNF	\$1.200
August 2013	RSAF Follow-on Support	RSAF	\$1.200
October 2013	U.S. Military Training Mission (USMTM) Program Support Services	MOD	\$0.090
October 2013	SLAM-ER, JSOW, Harpoon Block II, GBU-39/B Munitions	RSAF	\$6.800
November 2013	C4I System Upgrades and Maintenance	RSNF	\$1.100
December 2013	TOW 2A and 2B Missiles	RSLF	\$0.170
December 2013	TOW 2A and 2B RF Missiles	SANG	\$0.900
<b>Total</b>			<b>\$86.605</b>

**Source:** U.S. Defense Security Cooperation Agency (DSCA).

**Notes:** Includes proposed sales to Royal Saudi Air Force (RSAF), Saudi Arabian National Guard (SANG), Royal Saudi Land Forces (RSLF), Royal Guard, Royal Saudi Air Defense Force (RSADF), Royal Saudi Naval Forces (RSNF), and Ministry of Defense (MOD). Dashes indicate unspecified recipient force in DSCA public notice.



## Security Threats and Cooperation

The Saudi Arabian government views Al Qaeda, its affiliates, and supporters as direct threats to Saudi national security. Recent State Department reports have credited the Saudi government with working to preserve “a robust counterterrorism relationship with the United States” characterized by “enhanced bilateral cooperation.”<sup>6</sup> Saudi and U.S. officials have stated that Al Qaeda in the Arabian Peninsula, based in Yemen and led by Saudi nationals, constitutes the leading terrorist threat to the kingdom. The State Department has assessed that AQAP has “stepped up its efforts to inspire sympathizers throughout Saudi Arabia in an effort to compensate for difficulties in carrying out cross-border attacks.”<sup>7</sup> The aggressive expansion of the Islamic State of Iraq and the Levant (ISIL) in neighboring Iraq and in Syria have likely raised Saudi Arabia’s level of concern about the group, and may lead the Saudis to seek stronger partnerships with other Syrian opposition forces and Iraqi Sunnis.

U.S.-Saudi counterterrorism and internal security cooperation has expanded since 2008, when a bilateral technical cooperation agreement was signed establishing a U.S.-interagency critical infrastructure protection advisory mission to the kingdom. Modeled loosely on embedded advisory and technology transfer programs of the U.S.-Saudi Joint Commission for Economic Cooperation, the Office of the Program Manager-Ministry of Interior (OPM-MOI) is a Saudi-funded, U.S.-staffed senior advisory mission that provides embedded U.S. advisors to key industrial, energy, maritime and cyber security offices within the Saudi government. In parallel to these advisory efforts, the United States Military Training Mission also oversees a Saudi-funded program to train a Facilities Security Force for the Ministry of Interior to protect key infrastructure locations.

According to U.S. government sources, terrorist financing by individuals in Saudi Arabia remains a serious threat to the kingdom and the international community, even though Saudi authorities have made “serious and effective efforts” to combat illicit flows of funds to extremists.<sup>8</sup> Saudi authorities have forbidden Saudi citizens from travelling to Syria to fight and have taken steps to limit the flow of privately raised funds from Saudis to armed Sunni groups and charitable organizations in Syria. Nevertheless, references by some Saudi officials and clerics to genocide against Syrian Sunnis and foreign invasion by Iran and Hezbollah contribute to popular perceptions of the crisis in Syria as one that demands action by individuals. When asked about the kingdom’s views on jihad in Syria during a joint appearance with U.S. Secretary of State John Kerry in July 2013, Saudi Foreign Minister Prince Saudi al Faisal said, “Jihad is what a person can offer. A person may make an effort with his hand, so he may do that, or with his tongue, which is the least that one can do. We are making efforts on all levels.”<sup>9</sup> In January 2014, the

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<sup>6</sup> U.S. State Department Office of the Coordinator for Counterterrorism, Country Reports on Terrorism 2012, May 30, 2013.

<sup>7</sup> Ibid.

<sup>8</sup> “Despite serious and effective efforts to counter the funding of terrorism originating from within its borders, entities in Saudi Arabia continue to serve as an important source of funds flowing to Sunni-based extremist groups. ... Saudi Arabia’s capacity to monitor compliance with and enforce its banking rules has improved and helped to stem the flow of illicit funds through Saudi financial institutions. The Saudis’ ability to stop bulk cash smuggling also has improved. However, cash illicitly collected and transferred via pilgrims on Hajj or Umrah continues to flow.” U.S. State Department, 2013 International Narcotics Control Strategy Report (INCSR)--Volume II: Money Laundering and Financial Crimes Country Database, July 1, 2013.

<sup>9</sup> U.S. Government Open Source Center (OSC) Document IML2013062548784417, “Saudi TV Carries Prince Al Faisal, Kerry News Conference on Syrian Crisis, Other Issues,” *Al Ikhbariyah* Satellite Channel in Arabic, Riyadh, (continued...)

kingdom issued a decree setting prison sentences for Saudis found to have travelled abroad to fight with extremist groups, including tougher sentences for any members of the military found to have done so.

## Consensus and Contention in Regional Affairs

While some Saudi officials have made recent statements highlighting growing differences between U.S. and Saudi leaders on key issues, Saudi Foreign Minister Prince Saud al Faisal bin Abdelaziz Al Saud has stated during appearances with U.S. Secretary of State John Kerry that the two countries have relatively few differences in objectives, and “most of the differences are in tactics.”<sup>10</sup> Such tactical differences have been apparent in comparing U.S. and Saudi policies toward the conflict in Syria and nuclear negotiations with Iran, where the Saudis have objected to a perceived shift away from confrontation and toward negotiated settlements. It remains to be seen whether such tactical differences in fact mask irreconcilable differences in objectives on key issues.

Saudi leaders see the government of Iran as an existential threat and view Iran’s nuclear program as inherently threatening, in spite of Iranian assurances of its peaceful purposes. Nevertheless, the Saudi cabinet responded to the 2013 interim nuclear agreement with Iran by describing it as:

a primary step towards a comprehensive solution to the Iranian nuclear program, as long as good intentions are provided and as long as it concludes in a Middle East and Gulf region free of all weapons of mass destruction, including nuclear weapons. The Kingdom hopes that such a step will be followed by more important steps leading to a guarantee of the right for all countries in the region to peacefully use nuclear energy.

Although the public Saudi reaction was more positive than many experts expected, it remains to be seen how Saudi Arabian leaders will respond to any further U.S. negotiations with Iran or any perceived failings by Iran or the United States to live up to their commitments as outlined in the agreement. Analysts continue to debate whether the Kingdom would seek to acquire its own nuclear weapons capability if Iran did so. Saudi officials may fear that closer U.S.-Iranian relations could undermine the basis for close Saudi-U.S. relations and empower Iran to be more assertive in the Gulf region and the broader Middle East.

Statements by some Saudi leaders suggest they see Iran’s policies as part of an expansionist, sectarian agenda aimed at empowering Shia Muslims in the region at the expense of Sunnis. Iranian leaders attribute similarly sectarian motives to their Saudi counterparts. Saudi leaders are particularly critical of Iranian support for the government of Bashar al Asad in Syria. Saudi officials favored U.S. military intervention to a negotiated agreement in response to alleged chemical weapons use by the Asad regime. Saudi support for the Sunni monarchy in Bahrain and antipathy toward Iraqi Prime Minister Nuri al Maliki and his Shia allies reflects similar Saudi suspicion of Shia and Iranian intentions. Saudi leaders also have been critical of U.S. attempts to pressure Bahraini leaders to accommodate the demands of Bahrain’s largely Shia opposition.

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(...continued)

June 25, 2013.

<sup>10</sup> Ibid.

With regard to Egypt, Saudi Arabia was very critical of what it described as a U.S. failure to back a longtime ally when former president Hosni Mubarak initially came under pressure to resign. The Saudis later embraced the Egyptian military's ouster of the elected government led by Mohammed Morsi, who was affiliated with the Muslim Brotherhood, and has offered billions of dollars in financial assistance, with some Saudi officials publicly promising to replace any U.S. assistance withheld in protest of the military's actions. Some leading Saudi clerics defied the government's embrace of the Egyptian military's move, illustrating the potential for rifts among the government, some members of the religious establishment, and their respective supporters.

By all accounts, King Abdullah remains committed to the terms of the peace initiative he put forward under the auspices of the Arab League in 2002, which calls for normalization of Arab relations with Israel following the conclusion of a comprehensive Israeli-Palestinian peace accord and the establishment of a Palestinian state. However, it remains to be seen whether Saudi officials will support any specific outcomes of current negotiations backed by the Administration. Saudi Arabia supports the international recognition of a Palestinian state and full Palestinian membership at the United Nations. Following a November 20, 2013, meeting with Palestinian Authority President Mahmoud Abbas, Crown Prince Salman bin Abdelaziz released a statement renewing:

the kingdom's firm stance in support of the Palestinian cause until the Palestinian people regain all their occupied territories, including Al-Quds [Jerusalem]. The Crown Prince expressed the kingdom's condemnation of all Israeli plans to build settlements, stressing that these schemes constitute an obstacle to peace, a flagrant violation of the resolutions of international legitimacy, and a blatant attack on the firm legitimate rights of the Palestinian people.<sup>11</sup>

Saudi authorities declined a seat on the United Nations Security Council in October 2013, citing their views of its "double standards" and general "inability to carry out its duties and assume its responsibilities." Saudi officials have called for "profound and comprehensive reform" of the Council, including "abandoning the veto system or restricting its use" and "expanded membership of the Council that includes permanent seats for Arab States, African States and other under-represented groups."<sup>12</sup>

## **Saudi Arabia's Economy and U.S. Trade**

### **U.S.-Saudi Trade and Oil Imports**

Saudi Arabia remained the largest U.S. trading partner in the Middle East in 2013.<sup>13</sup> According to the U.S. International Trade Administration, Saudi exports to the United States in 2013 were worth more than \$51.8 billion (up more than \$29.7 billion from 2009 but below the 2008 figure of \$54.8 billion). U.S. exports to Saudi Arabia were valued at more than \$18.9 billion (up nearly \$8.2 billion since 2009). To a considerable extent, the high value of U.S.-Saudi trade is dictated

<sup>11</sup> Saudi Press Agency, "Crown Prince Receives Palestinian President," November 20, 2013.

<sup>12</sup> Statement of Permanent Representative of the Kingdom of Saudi Arabia to the United Nations, November 8, 2013.

<sup>13</sup> Comparable 2013 figures for Israel, the second-largest U.S. trading partner in the Middle East, were more than \$22.6 billion in exports to the United States and more than \$13.7 billion in U.S. exports to Israel. U.S. exports to the United Arab Emirates in 2013 are estimated at more than \$24.6 billion.

by U.S. imports of hydrocarbons from Saudi Arabia and U.S. exports of weapons, machinery, and vehicles to Saudi Arabia. Fluctuations in the volume and value of U.S.-Saudi oil trade account for declines in the value of Saudi exports to the United States in some recent years.

Efforts in the United States to produce more oil domestically are both lowering U.S. imports of oil overall and contributing to conditions in international oil markets that have put some downward pressure on oil prices. Since Saudi Arabia remains dependent on oil export revenues for much of its national budget, these trends have been viewed with some mild public and official concern in the kingdom. Rising demand in South and East Asia is expected to compensate for declining oil imports in North America in coming years. According to the U.S. Energy Information Administration, as of the end of January 2014, Saudi Arabia was the second-largest source of U.S. crude oil imports, providing more than 1.3 million barrels per day (mpd) of the 6.89 mpd in gross U.S. crude imports, behind only Canada.<sup>14</sup> Oil exports to the United States account for roughly 15% of Saudi exports, with East Asia accounting for more than 50%.<sup>15</sup>

In 2013, Saudi Arabia produced an average of more than 9 mbd of its estimated 12.5 mbd capacity and had indicated that it may not expand that capacity in light of current trends in international oil markets. Saudi officials have used their spare production capacity to moderate volatility in oil markets in recent years, viewing price stability as a sound investment in maintaining global economic activity, keeping revenues steady, and dissuading further investment by consumers in unconventional oil resources or alternative energy technologies because of high prices. This strategy has contributed to relative calm in markets that otherwise could have been more severely agitated by persistent unrest in the Middle East, loss of supplies from Libya and other producers, and speculation about the impact of sanctions or potential conflict with Iran. Unrest in Iraq and Libya and energy sanctions on Iran preclude investment in oil production in those countries that might otherwise expand available supplies and lower prices, with negative fiscal implications for the kingdom.

By some estimates, the volume of oil consumed in Saudi Arabia may exceed oil exports by 2030 if domestic energy consumption patterns do not change.<sup>16</sup> Some analysts have suggested that Saudi leaders could avoid the risks posed by this scenario by adopting “tough policy reforms in areas such as domestic pricing of energy and taxation, an aggressive commitment to alternative energy sources, especially solar and nuclear power, and increasing the Kingdom’s share of global oil production.”<sup>17</sup> However, subsidy changes and taxation are viewed as politically sensitive given the lack of popular representation in the kingdom’s government.

In the last few years, oil export proceeds have provided sufficient funds for Saudi Arabia to maintain healthy, but declining budget surpluses and make large spending increases to invest in solutions for long-standing social and economic problems, including those related to education, employment, and housing. The kingdom’s foreign reserves are estimated at more than \$700 billion, and its current debt to GDP ratio is under 3% (down from more than 100% in the late

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<sup>14</sup> Based on EIA data – “Weekly Imports & Exports:Crude” and “Weekly Preliminary Crude Imports by Country of Origin – Four Week Average,” January 31, 2014.

<sup>15</sup> EIA Country Analysis Brief – Saudi Arabia, February 2013.

<sup>16</sup> Glada Lahn and Paul Stevens, *Burning Oil to Keep Cool: The Hidden Energy Crisis in Saudi Arabia*, Chatham House (UK), December 2011; and, John Sfakianakis, “Saudi Arabia’s Essential Oil,” *Foreign Affairs*, January 8, 2014.

<sup>17</sup> Brad Bourland and Paul Gemble, “Saudi Arabia’s coming oil and fiscal challenge,” *Jadwa Investments (Riyadh)*, July 2011.

1990s). Since 2011, the kingdom has approved a series of record annual budgets and launched major additional spending programs to meet economic and social demands that some feared could fuel stronger calls from citizens for political change. Actual spending reached an all-time high in 2013, and the 2014 budget sets a higher spending target than 2013, with 38% of total spending earmarked for education and healthcare initiatives. Defense and security spending exceeded 30% of the budget in 2013. In December 2013, an IMF official observed that significant Saudi labor force growth in the coming decade will require “a large increase in the absorption of nationals into private sector jobs ...to avoid an increase in unemployment.” The kingdom’s investments in the education sector are an acknowledgement of the challenges related to preparing the large Saudi youth population to compete and prosper in coming decades. It also is possible that a more educated and economically engaged youth population could make new social or political reform demands as well.

## **Outlook**

As described above, Saudi Arabia has close defense and security ties with the United States anchored by long-standing military training programs and supplemented by ongoing high-value weapons sales and new critical infrastructure security cooperation initiatives. These ties would be difficult and costly for either side to fully break or replace. Saudi officials have expressed frustration with recent U.S. policy decisions, but at present leaders on both sides of the bilateral relationship appear fundamentally committed to maintaining cooperation. President Obama is scheduled to visit Saudi Arabia in March 2014 to exchange views with King Abdullah and presumably to strengthen bilateral ties.

## **Appendix. Historical Background**

The modern kingdom of Saudi Arabia is the third state established in the Arabian Peninsula since the end of the 18<sup>th</sup> century based on the hereditary rule of members of the Al Saud family. In the mid-18<sup>th</sup> century, a local alliance developed between the Al Saud and the members of a puritanical Sunni Islamic religious movement led by a cleric named Mohammed ibn Abd Al Wahhab. The Saudi-Wahhabi alliance built two states in the Arabian Peninsula during the next century that eventually collapsed under pressure from outside powers and inter- and intra-family rivalries.

During the first quarter of the 20<sup>th</sup> century, an Al Saud chieftain named Abd al Aziz ibn Abd al Rahman Al Saud (commonly referred to as Ibn Saud) used force to unify much of the Arabian Peninsula under a restored Al Saud state. Ibn Saud's forces overcame numerous tribal rivals with the support of an armed Wahhabi contingent known as the Ikhwan (or brotherhood), and, at times, with the financial and military backing of the British government. By 1932, King Abd al Aziz and his armies had crushed an Ikhwan revolt, consolidated control over most of the Arabian Peninsula, and declared the establishment of the Kingdom of Saudi Arabia.

Five of Ibn Saud's sons—Kings Saud, Faisal, Khaled, Fahd, and Abdullah—have succeeded him as rulers of the Saudi kingdom during the subsequent eight decades. This era has been dominated by the development and export of the kingdom's massive oil resources and the resulting socioeconomic transformation of the country. A series of agreements, statements by successive U.S. administrations, arms sales, military training arrangements, and military deployments have demonstrated a strong U.S. security commitment to the Saudi monarchy since the 1940s. That security commitment was built on shared economic interests and antipathy to Communism and was tested by regional conflict during the Cold War. It has survived the terrorism-induced strains of the post-Cold War era relatively intact, and is poised to continue as recently concluded arms sales to Saudi Arabia—the largest in U.S. history—are implemented.

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