LADERS OF THE ARAB FE
PINNINSY RUPPETS OF
THE GREAT SATAN

U.S. Embassy, Bern
The CR

Mafia's Student Following
the End of the Imam

(35)
In the name of Allah
the most
Compassionate and Merciful
In the name of Allah, the most compassionate,
the most merciful

In this introduction we shall not speak of Saudi and U.S. military collaboration, grand and unrivalled purchase of arms; The continuous Saudi and American plots to plunder the middle-eastern oil reservoirs; of unruly sale of oil under the instruction of their American master in a way suprising even to themselves; of the loss of honor and integrity of the muslims and Arabs in exchange for American Security shield to protect Saudi dynasty; of their special relationship with American imperialism; of the faithlessness unmuslimness and demagogueries of Saudi Kings and princes; of the growth and appearence of western manifestations of Corruption from under the ashes of hypocritical Sacredness; of the unlimited pressure and discrimination imposed on Non-Wahabi muslims; and of the internal factions in the Saudi family and the dependence degree of each on America, because every line of documents Contained in this book and those of the world's daily news are good reasons for what we want to say. Instead, we shall speak of matters that probe
the disgusting feature of A'immatol-Kufr (Infidelit
y leaders), in other words, we shall take a look at this
book's documents, that illustrate the moves of the Arabian-
Peninsular rulers as the longstanding Cornerstone of
American imperialism's camp of puppeteering and as the main
foundation of regional tail-wagging and mercenary reactionism,
during the recent decade. According to the documents, Saudis
have a bloody hand in all imperialistic and capitalistic plots
of America against the Muslim and the oppressed nations of
the region. In Iran, Ethiopia, Yemen, Palestine, the
republic of Sahara, Horn of Africa, and where ever there
is a battle between the oppressed Muslim nations and the in-
fidles American imperialism, Saudis have taken side with
Infidles against the oppressed.

Cataclysm emerges not only when Saudi devils open
fire on Muslims on the infidles' front, but when they turn
out to be the main provocative and encouraging elements
inviting the warring impious to fight against the Muslims.
The contents of the following documents are indicative of
our claims:

1- IRAN: Fahd, then crown-prince of Saudi Arabia, ten
days prior to the ignominous flight of the annihilated Shah, takes the following position in support of him:"

B

"We support every regime that enjoys legitimacy in the country and the regime of the Shah rests on such legitimacy. The bloody events in Iran serve no interest except that of the enemy. The present situation in Iran does not serve the interests of the Iranians themselves nor indeed the interests of Islam or the Muslims. There is no doubt that we support his status and his presence. "His other counterpart is also of the same opinion:"

A

During course of my conversation with former Prince Saud on January 1, 1979, he said Saudi Arabia was very concerned about events in Iran. SAC fears that if Shah goes, ....... this would produce chaotic condition which will not be good for the area. I asked what could be done to help. He said that Shah
needed logistical support.

They adopted the following position, after the fall of the Shah and the establishment of the Islamic Republic in Iran:

"Knowing in our opinion", continued Fahd, "Is a tool, although he may not know it or admit it. The communists are pursuing their designs methodically .......... these acts of savage slaughter have no connection to Islam whose flag is being artificially fluttered in Iran".

"The Crown Prince predicted that "Shortly, Perhaps within a few months, Khomeini will be out and Iran will become another Ethiopia, ruled by communists placed there by Moscow "

"The main point is that, he not only considers the American imperialists' plots against the oppressed, muslim nations inadequate, but overtly encourages them to pave the way for the fall of Islamic revolution in Iran".

"The Crown Prince regreted that the United States did nothing to counter the communists threats in the region."
"Saudi Arabia had seen the communist fire approaching for a long time and had alerted the U.S. Saudi Arabia's warning and appeals however seem to have fallen on deaf ears."

Z - BAHRAIN: The Saudis role in the Persian Gulf is also of the same token. On the one hand, under the pretext of Iran's interference (in the name of Communism) they encourage their American masters to directly intervene and fight against the Islamic Revolution. And on the other hand, they, themselves, directly launch Suppressive Campaigns against the peoples of the region."

E

"Fahd further noted that Iran was threatening Bahrain, Kuwait and the other Arab countries of the Gulf. There had however not been a word of caution to Iran from President Carter to reassure not only weak countries like Bahrain, but also America's other friends in the area and around the world."

E

Saudi businessman in presence of police official told come off September 14 that SAG has sent 500 national guardsmen to Bahrain to help GOB maintain order in face of
eht's unrest.

Neither we nor British Embassy have received any confirmation of SAG national guardmen actually being sent to Bahrain. During demonstrations at the end of August, rumors were strong that up to two thousand Saudi Police had arrived to assist in containing situation but no trace of them ever appeared.

The problem is not whether the Saudi military dictators have entered Bahrain, but the fact that they have decided to create a problem out of Iran's danger to pave the way for their own interferences:

To bolster his advocacy of firmness in the Gulf region, Abdallah claimed that Saudi Arabia reversed Iranian aggressive designs on Bahrain by warning Tehran that any take over attempt would be opposed by the Saudis.

At several points, Abdallah urged that the USG demonstrate vigor in countering Soviet and surrogate threats to ME security. He advocated a combination of "Swinging the stick" and active diplomacy.

1- Saudi Arabian active involvement in conspiracies against Islamic Republic, proves to everyone that she has been the principal director of the on going war between Iran & Iraq
3. YEMEN: Saudis' plots in Yemen are so evident that there is no need for explanation."

The Saudi policy toward the north has long been ambivalent. The Saudis want north Yemen to be strong enough to defend itself against the south but not strong enough to threaten them. The Saudis are suspicious about north Yemen's willingness to engage in unification talks with the south.

Saudi defense minister Sultan... the central figure in defining his government's policy toward the Yemenis... may cooperate with disgruntled north Yemeni's to oust Salih if he concludes that Salih is indeed going too far in appeasing the south.

4. ETHIOPIA.

"Fahd said his interest in Ethiopia was not purely academic; rather this was based on the Horn of Africa's proximity to the Arabian Peninsula and the repercussions of the Ethiopian-Somalian-Sudanese political scene on developments in Saudi Arabia and the Gulf area.

The Crown Prince related how prior to the emperor's downfall, he (Fahd) had discussed Haile Selassie's problems
with then-president Nixon and secretary Rogers .......... 
unfortunately the west and the U.S. also did nothing, leaving 
an open path for the soviets and their allies to move in 
with their cuban surrogates."

5. SOMALIA:

"Fahd recalled how in 1978, at president Carter's 
suggestion, he had persuaded siad barre to announce publicly 
his acceptance of a un plebisicte for ogaden's people. 
Although barre did announce his willingness to accept the 
results of a un referendum, the U.S. seems to have lost 
terest in Somalia. Fahd feared that, through neglect, the 
U.S. might lose Somalia by default."

6. The Republic of Sahara.

Amir Abdollah the present Saudi crown prince overtly 
urges the American pagans to fight against the Sahara, in 
support of king Hassan of Morocco.

"Abdollah (who earlier in the meeting had listened intently 
to ambassador wait's review of the Moroccan military situation, 
derived from Rabat 7148) asked Mr. Ball to urge upon the
7. EGYPT:

Since Egypt's signing of the Camp David Treaty and her friendship with Zionism proved her hostile to Islam and the independence of Arab nations in middle-east, she has become the target of regional nations' hatred and disgust. Although the tail-wagging, Western-oriented governments were covertly in accord with Sadat and the Egyptian regime, under the pressure of their own people they had to cut relations with Egypt and isolate her regime. In resisting the will of Muslim people of the region, America and Israel attempted to decrease the amount of pressure exerted on Egypt. The following texts bear the description of Saudi-U.S.-Egyptian Conspiracy in promulgating American Islamic unity and friendship with Israel in contrast with Islam and the Muslims' will:

During May 1 meeting, Embassy political officer discussed for Islamic conference with MFA eastern affairs director in
Ahmad Siraj. Siraj said that Saudi Arabia was sending a strong delegation composed of five foreign ministry officials.
On the question of Egyptian membership, Siraj said that Saudi Arabia was legally bound to observe the decisions of the Baghdad conference. He said that if explicit question of expulsion of Egypt ever comes to vote, Saudi Arabia cannot be expected to break with Arab consensus.

Siraj added that he felt best way to prevent the expulsion of Egypt was to have the non-Arab states resist such a measure.

On the basis of defense of the Islamic conference charter. (Comment: That chapter has no provision for expulsion of any Muslim state....)

Siraj said that no Arab state can be expected to raise such an issue, but that if enough non-Arab states raise serious objections based on defense of the Islamic conference charter, Saudi Arabia could help prevent the expulsion issue from coming to a vote on the grounds that such a vote would damage Islamic solidarity.

8. Palestine: There is a lot to say on the Saudi rulers' latest positions and conspiracies against the interests of the Palestinian people, but in order to give an end to this
introduction, we suffice to probe the main point and the ultimate Saudi intentions from the conspiracies planned in secret negotiations with their American masters.

The Saudis regard the Arab-Israeli conflict as a direct threat to their national security. They view Arab, and especially Palestinian, frustration with Israel as a source of instability in the area that has been successfully exploited by radical leftists and the USSR.

Saudi leaders are convinced that bringing the PLO into the peace process would remove the largest Palestinian organization from the radical camp of those Arabs who reject settlement with Israel. The onus for accepting difficult compromises with Israel would thereby be shifted from the moderate Arabs to the Palestinians themselves.

In the end we hope with the grace of Allah that the publication of this collection shall notoriously disgrace the naive politicians, and make the world-over hear the righteous call of the oppressed people. May we observe the destruction of the world oppressors and their followers in the future history.

ENSHA'ALLAH

Moslem students following
Imam Khomeini's Line.
AND
Estimates of about 2,351,000 km² (boundaries undefined or disputed); 1% agricultural, 1% forested, 98% desert, rural, or urban
Land boundaries: 4,517 km

WATER
Limits of territorial waters (claimed): 12 nm (plus 6 nm "necessary supervision zone")
Coastline: 2,510 km

PEOPLE
Population: 8,103,000 (July 1979); average annual growth rate: 3.1% (current)
Nationality: noun—Saud; adjective—Saud Arabian or Saudi
Ethnic divisions: 90% Arab, 10% Afro-Asian
Religion: 100% Muslim
Language: Arabic
Literacy: 15% (est.)
Labor force: about 33% (one-half foreign) of population; 64% commerce, services, and government; 28% agriculture; 8% construction, 4% industry, 3% oil and mining

GOVERNMENT
Legal name: Kingdom of Saudi Arabia
Type: monarchy
Capital: Riyadh; foreign ministry and most diplomatic representatives located in Jiddah
Political subdivisions: 18 provinces
Legal systems: largely based on Islamic law, several secular codes have been introduced; commercial disputes handled by special committees; has not accepted compulsory ICC jurisdiction
National holiday: 23 September
Heads of state: King Khalid (Al Sa'ud, Khalid ibn 'Abd al-'Aziz) rules in consultation with royal family (especially Crown Prince Fahd), and Council of Ministers

SECRET
SAUDI ARABIA

Government leader: King Khalid bin 'Abd al-'Aziz Al Saud

Communists: negligible


ECONOMY

GDP: $16 billion (1978 est.), $9,800 per capita; annual growth in real non-oil GDP approx. 15% (1975/77 average, non-oil)

Agriculture: dates, grains, livestock; not self-sufficient in food

Major industries: petroleum production 9.2 million b/d (1978), payments to Saudi Arabian Government, $36 billion (1977), cement production and small steel-rolling mill and metal refining; several other light industries, including factories producing detergents, plastic products, furniture, etc.; PTFOMIN, a semigovernmental agency associated with the Ministry of Petroleum, has recently completed a major fertilizer plant

Electric power: 4,700,000 kW capacity (1978), 8.5 billion kWh produced (1978), 1,085 kWh per capita

Exports: $40 billion (f.o.b., 1975), 66% petroleum and petroleum products

Imports: $24 billion (c.i.f., 1975), manufactured goods, transportation equipment, construction materials, and processed food products

Major trade partners: exports—U.S., Western Europe, Japan, imports—U.S., Japan, West Germany

Aid: large aid donor; military and economic aid in 1977 amounted to $4 billion

Budget (FY78): expenditure $32.8 billion, of which development funding was $22 billion

Monetary conversion rate: 1 Saudi riyal = US$0.48 (1976) (linked to SDR, freely convertible)

Fiscal year: follows Islamic year; the 1978-79 Saudi fiscal year covers the period 6 June 1978 through 25 May 1979

COMMUNICATIONS

Railroads: 575 km standard gage (1.635 m)

Highways: 30,100 km total; 16,500 km paved, 13,600 km unpaved earth

Pipelines: 4,390 km crude oil; 396 km refined products; 98 km natural gas

Ports: 3 major (Jidda, Ad Dammam, Ras Tanura), 6 minor

Merchant marine: 68 ships (1,000 GRT or over) totaling 1,272,200 GRT, 2,553,000 DWT; includes 6 passenger, 25 cargo, 27 tanker, 5 specialized carrier, 1 beach landing craft

Civil air: 67 major transport aircraft, including 5 leased in Airfields: 123 total, 90 usable; 32 with permanent-surface runways, 18 with runways 2,440-3,659 m, 30 with runways 1,220-2,439 m, 4 with runways over 3,660 m

Telecommunications: fair system exists, major expansion program underway with microwave, coaxial cable, satellite systems; 200,000 telephones (2.5 per 100 pop.), 8 AM, 1 FM, 11 TV stations, 1 submarine cable, 1 Atlantic and 1 Indian Ocean satellite stations; 15 domestic satellite stations

DEFENSE FORCES

Military manpower: males 15-49, 1,882,000; 1,043,000 fit for military service; about 77,000 reach military age (18) annually

Personnel: 31,500 army, 1,400 navy, 6,000 air force (250 pilots), 20,000 national guard (5)

Major ground units: 5 infantry brigades, 1 mechanized infantry brigade, 2 armored brigades, 8 battalions (1 royal guard, 2 airborne, 2 light armored, 1 Special Forces, 2 field artillery), 16 air defense artillery batteries; 10 Hawk air defense missile batteries; in addition, national guard has 46 battalion-size units (5)

Ships: 3 fast patrol boats, 1 patrol boat, 2 utility landing craft, 4 mechanized landing craft, 4 service craft in naval force; about 400 miscellaneous patrol craft (including 8 hovercraft) in coast guard (5)

Aircraft: 288 (184 jet, 38 turboprop, 14 prop, 52 helicopters) (5)

Supply: produces some ammunition and rifles; otherwise relies on Western sources, particularly U.S., West Germany, U.K., Italy, and France (C)

Military budgets for fiscal year ending 1 July 1979: $12,906 million; about 32% of central government budget (C)

INTELLIGENCE AND SECURITY

Directorate of General Intelligence (DG1) (Al-Mudiriyah al-Amma al-Inshaf al-Muhaya), domestic; Foreign Liaison Office (FLO), foreign covert action instrument (in September 1977, the FLO was subsumed into the DG1, but as of March 1978 it continued to function as a separate entity); Directorate General for Investigations (Al-Mudiriyah al-Amma lil Maharib), domestic; Directorate General for Public Security (Al-Mudiriyah al-Amma lil Amn al-Am), domestic; Directorate General for Coal and Frontier Guard (Al-Mudiriyah al-Amma lil Khair al-Sawahil wa al-Hudud), domestic; Department of Civil Defense, domestic; Department of Technical Services (Mudiriyat al-Khadamat al-Amma), domestic; National Security Council (Al-Majlis al-Alm lil Amn al-Am), domestic; National Guard (Al-Haras al-Watan), domestic; Foreign Liaison Office (FLO), domestic and regional; Special Security Forces (SSF), domestic (S/NF)
THE FOLLOWING MESSAGE REPRESENTS A CONSENSUS OF THE EMBASSY’S OIL COMMITTEE MEMBERS INCLUDING USLO RIYADH AND CONSULATE DHAHRAH.

1. THE 14.5 PERCENT PRICE INCREASE DECIDED AT THE OPEC MINISTERIAL CONFERENCE IN ABU DHABI POSSIBLY REPRESENTS THE OVER-RIDING DECISION OF SAUDI ARABIA TO MAINTAIN OPEC UNITY OVER ITS SOMEWHAT WEAKER WISH TO BE RESPONSIVE TO WESTERN, AND ESPECIALLY US, PLEAS FOR PRICE MODERATION. THE DESIRE TO MAINTAIN OPEC UNITY WAS EXEMPLIFIED BY THE INTENSIVE BILATERAL CONSULTATIONS THAT PRECEDED THE CONFERENCE. THESE BEGAN IN EARLY FALL, WITH SAUDI OIL MINISTER YAMANI LEADING OFF WITH HIS FIRST VISIT TO VENEZUELA IN SEVERAL YEARS. THIS WAS FOLLOWED BY A SERIES OF VISITS BY AGUDHABI’S OIL MINISTER, MANI AL UTAYBA, TO VIRTUALLY ALL THE MIDEAST OPEC CAPITALS. IN THE FINAL DAYS BEFORE THE CONFERENCE, THE OIL AND FINANCE MINISTERS OF QATAR AND ABU DHABI, AS WELL AS KUWAITI OIL MINISTER ALI KHALIFA AND IRANIAN MIIOC OFFICIALS PARVEZ SHAMSI ALI VISITED THE KINGDOM. THESE VISITS ARE BELIEVED TO HAVE SET THE STAGE FOR THE PRICE DECISION TAKEN AT ABU DHABI.
2. AT THE SAME TIME, EXTERNAL FACTORS CONTRIBUTED PRESSURE FOR A PRICE INCREASE; MOST SIGNIFICANT WAS THE EARLY DECEMBER DROP IN IRANIAN PRODUCTION OCCASIONED BY RENEWED INTELLIGENCE DIFFICULTIES. THIS, COMBINED WITH PRE-CONFERENCE LIFTINGS BY OIL COMPANIES IN ANTICIPATION OF A PRICE INCREASE, AND USUALLY HIGH FALL DEMAND IN EUROPE COMBINED TO SOAK UP SURPLUS PRODUCTION. AT THE SAME TIME, THE RENEWED STRENGTH OF THE DOLLAR IN RESPONSE TO THE U.S. SUPPORT PROGRAM HAD ONLY LIMITED IMPACT ON SAUDI THINKING. SAUDI OFFICIALS COMMENTED THAT IT WAS STILL TOO EARLY TO BASE OIL PRICE JUDGMENTS ON THIS STRENGTHENING, AND STATED THAT SEVERAL MONTHS WOULD BE NECESSARY TO TELL IF THE PROGRAM WAS INDEED WORKING.


4. INITIAL LOCAL REACTION HAS BEEN REPORTED IN REFTEL. IN HIS PRESS CONFERENCE IMMEDIATELY FOLLOWING THE CONFERENCE, ZAKI YAMA'I INDICATED THAT SAUDI OBJECTIVES HAD BEEN A SMALLER PRICE-HIKE 0 BUT CROWN FAHDI'S STATEMENT OF FOLLOWING BY
DAY, WHILE EMPHASIZING THE 10 PERCENT AVERAGE, CALLED THE PRICE HIKE "LOGICAL AND OBJECTIVE" AND BLAMED THE DETRIORATION OF THE DOLLAR AND HIGH INFLATION IN THE WEST WHICH MADE SUCH A HIKE NECESSARY.

5. AN INITIAL CALCULATION INDICATES THAT THE SAUDIS WILL RECEIVE ROUGHLY AND ADDITIONAL $3.5 BILLION IN 1979 AS A RESULT OF THE PRICE HIKE IF A PRODUCTION LEVEL OF 3.5 BILLION B/DAY IS MAINTAINED. OBVIOUSLY, THIS WILL ASSIST THE SAUDIS IN MEETING ANY FURTHER SHORT-FALL IN THE CURRENT FISCAL YEAR BUDGET AND PROVIDE SOMETHING OF A CUSHION FOR NEXT YEAR'S EXPENDITURES IF PRODUCTION FALLS. IT WILL NOT PROVIDE SUFFICIENT FUNDS TO UNDERTAKE ANY AMBITIOUS NEW PLANS BEYOND THOSE ALREADY PROJECTED. BUT, WITH THE RECENT EMPHASIS ON COST CUTTING AND TIGHTER CONTROL OF EXPENDITURE, TOGETHER WITH THE MAINTENANCE OF A DOMESTIC INFLATION RATE OF 10 TO 12 PERCENT, WELL BELOW EARLIER LEVELS, FURTHER CUTS IN CURRENT PROJECT SPENDING ARE UNLIKELY.

6. TO THE EXTENT THAT THE DOLLAR DETERIORATES AS A RESULT OF THIS PRICE HIKE, SO WILL THE OVER 30 PERCENT OF SAUDI ASSETS AND RESERVES DENOMINATED IN DOLLARS. HOWEVER, THIS LOSS IN DOLLAR VALUES WILL ACTUALLY BE APPLICABLE ONLY WHEN THE SAUDIS NEED TO EXCHANGE THEM FOR OTHER CURRENCIES TO PAY FOR IMPORTS OR SERVICES. ON THE OTHER HAND, TO THE EXTENT THAT THIS PRICE INCREASE FUELS U.S. INFLATION, SAUDI PURCHASES OF U.S. GOODS AND SERVICES WILL BE DIRECTLY EFFECTED.

7. WE DO NOT EXPECT THIS PRICE INCREASE TO HAVE ANY MAJOR EFFECT ON SAUDI FOREIGN AID. AID WILL PROBABLY BE SUSTAINED AT CURRENT LEVELS, WITH ARAB AND ISLAMIC POLITICAL CONSIDERATIONS CONTINUING TO BE THE OVER- RIDING FACTORS IN AID DECISIONS. THERE MAY BE SOME AID GIVEN IN THE FORM OF OIL GRANTS AS CLAIMED BY KOBUTU OF ZAIRE AFTER A RECENT VISIT TO THE KINGDOM.
2. In the longer range, the new base for possible OPEC price increases for 1980, will be 14.5 percent higher than the current price. The Saudi Third Five Year Plan is scheduled to begin in April, 1980. This plan is expected to be more costly than the second plan, and there is a growing sophisticated realization among Saudi planners to match revenues with expenditures. What impact this will have on long-term pricing policy is uncertain, but will become more apparent as precise outlines of the third plan emerge.

9. Another interesting, but as yet unresolved, question is what impact this price increase will have on maintenance and expansion of oil productive capacity. The possibility that some of this additional profit be diverted to maintenance and expansion of oil facilities will, in some measure, be determined by how sales and budgeting procedures of the to-be-nationalized Aramco are organized.

10. One of the most significant effects of the Abu Dhabi Conference, from the Saudi point of view, was the restoration of OPEC unity which was badly shaken by the Saudi break and the resultant two-tiered price in 1977. The willingness of Saudi Arabia to accept the majority decision has redeemed Saudi Arabia and banished, at least temporarily, lingering doubts as to its pro-OPEC stance towards the other members. The Saudis see this as a positive good, and this accounts for the spirited defense of the price increase now appearing in the local press.

11. Some element of raab unity may also be involved. Perhaps more concretely, the Saudi action has played a major role in the significant improvement of relations with both Kuwait and Iraq. Here, the Saudi posture can be interpreted as pro-Arab following on the results of the Baghdad Conference, as well as pro-OPEC.

12. It is still too early to say how the Saudis evaluate the impact of the price increase on Saudi-U.S. relations. The instant defensive reaction leads us to believe that they are perhaps nervous over what the impact will be, especially if they are singled out for blame by the U.S. press as they were praised after the 1977 price split. Certainly, there are no current indications that they will respond positively to President Carter's request for reconsideration of the step increases later next year.

0013

13. THEY HAVE AND WILL CONTINUE TO ARGUE BOTH PUBLICLY AND PRIVATELY THAT THE PRICE INCREASE WOULD HAVE BEEN EVEN GREATER IF NOT FOR SAUDI MODERATION, AND WILL POINT TO THE OPEC DECISION TO CONTINUE USE OF THE DOLLAR AS A PRICING MECHANISM TO BE THE RESULT OF THEIR DEFENSE OF U.S. INTERESTS. WHAT OTHER STEPS THEY MAY TAKE TO ALLEVIATE U.S. DISAPPOINTMENT OVER THE PRICE INCREASE ARE NOT CLEAR, BUT MAY INCLUDE STEPPED UP DOLLAR PURCHASES FROM THE UNITED STATES.

14. THE BIGGEST DANGER ARISING FROM THIS MOST RECENT OPEC DECISION IS THAT OPEC AND SAUDI ARABIA MAY FIND THEMSELVES LOCKED INTO A CONTINUATION OF THE SYSTEM OF QUARTERLY PHASED INCREASES. YAMANI MUCH EARLIER PUBLICLY ADVOCATED SUCH A SYSTEM AND THIS IS PROBABLY ONE OF THE QUESTIONS BEING STUDIED BY THE OPEC MINISTERIAL LONG-RANGE STRATEGY COMMITTEE. SINCE OPEC PRICING DECISIONS ARE IN THE LAST ANALYSIS MORE POLITICAL THAN ECONOMIC, SUCH A PROCEDURE, ONCE INSTITUTIONALIZED, MAY BE VERY HARD TO UNDO. AS A RESULT, ANOTHER-INFLATIONARY FACTOR WILL BE BUILT INTO THE WORLD ECONOMIC SYSTEM. SIGNIFICANTLY, ALTHOUGH POTENTIAL FUTURE PRICE INCREASES ARE STATED TO BE HINGED TO THE FATE OF THE DOLLAR, THERE IS NO ASSURANCE THAT THE DOLLAR'S STRENGTHENING WILL LEAD TO ANY PRICE DECREASE.

WEST
28013
E.O. 12065; ODS 1/2/85 (BOVIS, H. EDGEE) OR-P
TAGS: PEPR, SA, IR
SUBJECT: SAUDI VIEW OF IRAN

(c- ENTIRE CONTENTS)

1. DURING COURSE OF MY CONVERSATION WITH FON MIN PRINCE SAUD ON JANUARY 1, 1979, HE SAID SAUDI ARABIA WAS VERY
CONCERNED ABOUT EVENTS IN IRAN. SAG FEARS THAT IF SHAH GOES, ALL THE SYMBOLS OF UNITY IN THE COUNTRY WILL DISAPPEAR. ARMY WILL DISINTEGRATE AND COUNTRY WILL COLLAPSE INTO TRIBALISM. THIS WOULD PRODUCE CHAOTIC CONDITION WHICH WILL NOT BE GOOD FOR THE AREA.

2. I ASKED WHAT COULD BE DONE TO HELP. HE SAID THAT SHAH NEEDED LOGISTICAL SUPPORT. HE NEEDS WAY OF KEEPING FUEL SUPPLIES COMING AND MAINTAINING FOOD DISTRIBUTION.

3. HE ADDED THAT THERE WAS NO REAL ALTERNATIVE TO THE SHAH AND THAT HE WAS TERRIBLY CONCERNED AS TO WHAT WAS HAPPENING.

4. I ASKED HIM IF HE HAD ANY PREDICTION OF WHAT THE FINAL OUTCOME MIGHT BE. HE REPLIED THAT THE SITUATION WAS SUCH THAT HE COULD NOT PREDICT WITH ANY CONFIDENCE WHAT MIGHT HAPPEN.

WEST
ET
#0049

CONFIDENTIAL
AmEmbassy TEHRAN

INCOMING TELEGRAM

LIMITED OFFICIAL USE

INFO:

AMB / R 3893932 J1N 74
DCM / FM AMBASSADTY JIDDA
SA / TO RUCHEY SECESTY WASHDG 908
POLC / RUHKY/AMBASSADTY TOKYO 329
ECON / INFO RUCHEY/AMBASSADTY ABU DHABI 1355
PM / RUCHEY/AMBASSADTY DHAMAN 710
USIS / RUCHEY/AMBASSADTY TEHRAN 2411
CONS / BT

ADM / LIMITED OFFICIAL USE JIDDA 0726
GSO / E.C. 11692: W'A
RE / TACN BIRG, EIN, SA, JA
PER / SUBJ: SAUDI OIL SALES AND INDIUSTRIALIZATION
HSD / REF: JIDDA 727 (N/D/AL)

MSG / 1. DURING RECENT VISIT BY JAPANESE FOREIGN MINISTER SUNOGA,
SCRO / SAUDI OIL MINISTER YAMANI TOOK PAIN TO EMPHASIZE --
CRO / ACCORDING TO JAPANESE EMBASSY SOURCES HERE -- THAT SAO
CEO / COULD NOT BE EXPECTED TO PRODUCE OIL IN MID-1980'S AT
MAQ / RATE OF 16-18 MILLION B/D INDICATED BY CIA OR OTHER STUDIES.
DAQ / YAMANI NOTED OPPOSITION IN SAO TO ANY PRODUCTION INCREASE
MAAG / BEYOND PRESENT 6.5 MILLION B/D CEILING, HE ONCE AGAIN
MAK / STRESSED SAO DESIRE FOR TECHNOLOGY TRANSFER AS CONDITION
MAK / FOR EXPANSION OF SAUDI OIL PRODUCTION.

AGR / 2. YAMANI TOLD JAPANESE THAT OIL PRODUCED BY SAUDI
DEA / ARABIA, IN EXCESS OF ENTITLEMENTS TO ARAMCO PARENT
INS / COMPANIES UNDER TAKEOVER AGREEMENT (NOTE: ABOUT
TCTR / 1 MILLION B/D, WOULD BE SOLD IN FUTURE BY SAO ENTITY
FAA / UNDER NEW GOVERNMENT TO GOVERNMENT SALES CONTRACT
TM / WHICH WOULD TIE INDUSTRIAL-TECHNICAL COMMITMENTS
TU / ON PART OF BUYER TO OIL SALES, CURRENT JAPANESE OIL
CRU / PURCHASE CONTRACTS ALL EXPIRE AT END OF 1976.

SHIR / 3. SAO CONTINUING TO PRESS JAPANESE FOR COMMITMENT
TABR / ON PETROCHEMICAL PROJECT AT JUBAYL, ACCORDING TO
ISFA / JAPANESE EMBASSY, PROJECT IS NOW UNDER "INTERNAL
SAD / STUDY" BY MITSUBISHI GROUP AND MITI, WHICH IS
SAD / EXPECTED TO LAST UNTIL JUNE. IF JAPANESE CAN AGREE
ISHI / INTERNALLY (WHICH WE UNDERSTAND INVOLVES INSISTENCE
ISHI / BY MITSUBISHI THAT OTHER JAPANESE PETROCHEMICAL
ISHI / MANUFACTURERS BE OBLIGED TO TAKE SOME OF PLANT
ISHI / PRODUCT), PROJECT WILL MOVE TO STAGE OF JOINTLY
ISHI / SAUDI-JAPANESE FINANCED DETAILED FEASIBILITY STUDIES.

WEST
CONFIDENTIAL

INFO: PR 1487152 FEB 78
AMB: AM CONSUL DHAHRAN
DCM: TO RUHC/SECRETARY WASHDC PRIORITY 6018
SA: INFO RUHC/A/EMBASSY JIDDA 8149
POL: RUHC/A/USL/RIYADH 252
ECO: RUHC/A/EMBASSY TEHRAN 1263
P: RUHC/A/EMBASSY KUWAIT 1282
M: RUHC/A/EMBASSY ABU DHABI 393
USIS:
CONS:
SUBJ: E.O. 11652: GDS
TAGS: ENRG, SA
ADM:
GSO:

1. CURRENT PRODUCTION: ARAMCO CHAIRMAN JOHN KELBERGER (PLEASE PROTECT) RECENTLY TOLD CONSUL GENERAL THAT THE COMPANY'S PRODUCTION AVERAGED 7.5 MILLION BPD DURING JANUARY 1978. THE REDUCED PRODUCTION RATE REFLECTED SLACK DEMAND DURING THE LAST QUARTER OF 1977 AS BUYERS FILLED STORAGE FACILITIES IN ANTICIPATION OF AN OPEC PRICE RISE. ACCORDING TO KELBERGER DEMAND HAS SHARPLY INCREASED IN FEBRUARY, PROBABLY BECAUSE OF BAD WINTER IN US AND ELSEWHERE, AND FIRST EIGHT DAYS OF THE MONTH WERE AT THE RATE OF 10 MILLION BPD.

3. KELBERER COMMENTED THAT A GROWING NUMBER OF YOUNG TECHNOCRATS IN THE SAUDI GOVERNMENT FAVOR CONSERVATION OF THEIR SOLE NATURAL RESOURCE BY LIMITING PRODUCTION TO THE AMOUNT NECESSARY TO COVER SAG FINANCIAL REQUIREMENTS INCLUDING THE FIVE YEAR PLAN, I.E. APPROXIMATELY 5 MILLION BPD. MOST POLICY-MAKING AND TECHNICAL OFFICIALS IN THE PETROLEUM MINISTRY, ACCORDING TO KELBERER, THINK THAT 12 MILLION BPD IS ABOUT THE BEST LONG-TERM PRODUCTION LEVEL FOR SAUDI ARABIA, CONSIDERING DEPLETION RATES AND GOOD FIELD CARE. THEY REALIZE, HOWEVER, THAT SAUDI RESPONSIBILITIES TO THE FREE WORLD AND POLITICAL REQUIREMENTS MAY FORCE THAT RATE UPWARD.

4. COMMENT: THE YOUNG SAUDI TECHNOCRATS, WHO CONSISTENTLY CITE THE FIVE MILLION B/D PRODUCTION FIGURE AT CURRENT OIL PRICES NEEDED TO COVER DEVELOPMENT PLANS, MAY BE USING AN ARGUMENT AGAINST INCREASED OIL PRODUCTION WHICH IS RAPIDLY LOSING ITS VALIDITY. AS POINTED OUT IN JIDDA 6976, INFLATION AND THE DROP IN THE DOLLAR EXCHANGE RATE ARE CAUSING CONCERN TO SAUDI ECONOMIC PLANNERS, WHO ARE NOW TALKING OF POSSIBILITY OF DEFICIT BUDGETS IN THE "EARLY TO MIDS-1980'S." THUS, THERE MAY BE RECOGNITION IN OTHER PARTS OF THE SAG THAT FIVE MILLION B/D AT CURRENT PRICES MAY NOT PAY FOR ALL THE PROJECTS INCLUDED IN THE FIVE YEAR PLAN. THIS IS NOT TO SAY THAT SAG OIL REVENUES AT CURRENT PRODUCTION LEVELS CANNOT COVER SAG EXPENDITURES OR THAT THE SAG HAS NOT THE MEANWHILE TO COVER FIRST PLANNED DEVELOPMENT PROGRAMS. (SAG STILL HAS LARGE AND STILL GROWING RESERVE POSITION.) HOWEVER, COSTS OF DEVELOPMENTAL PROJECTS CONTINUE TO MOUNT AS OIL REVENUES REMAIN FAIRLY STATIC UNDER THE PRICE FREEZE, AND FIVE MILLION B/D PRODUCTION MIGHT NOT PRODUCE SUFFICIENT REVENUE TO CARRY OUT SAG'S AMBITIOUS DEVELOPMENT PLANS.

BUSHNELL
Department of State

ABU DHABI, DHAHRAN, DOHA, KUWAIT, RIYADH, TEHRAN

Amembassy Jidda

GDS
ENRG, SA
Saudi Oil Situation - 1978

LIMDIS

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Summary The Saudi oil production ceiling of 8.5 million barrels per day (mmbd) is unlikely to be tested in 1978, a year of expected low demand. The SAG in fact seems prepared to reduce its production still farther to help support the current OPEC price structure, if necessary.

In spite of a projected soft demand for oil in the next two years, the Saudi Arabian Government (SAG) has authorized Aramco to increase productive capacity into the 1980's, although at rates less than the company would like. Due largely to the SAG's insistence that it remain on a self-financing regime (financing capital expenditures on oil production programs entirely out of its retained earnings), Aramco has had to reduce its production goals for the mid-1980's to a sustained rate of no more than 12.5 mmbd. Much of the expenditure will be for programs designed to maintain current production levels in oil fields experiencing pressure maintenance, salinity, corrosion, and other problems.
Saudi sentiment for resource conservation is growing, and is likely to create increasing problems for expansion programs as the one hundred percent takeover of Aramco moves forward. Saudi oil policy can, however, be set by Crown Prince Fahd in opposition to those trends if political considerations, such as movement toward a Middle East settlement, warrant it.

Although possibilities exist that the USG could stimulate somewhat higher rates of Saudi oil production in the mid-1980's, the diminished likelihood of large production increases from Saudi Arabia points to an earlier arrival of the "oil crunch" unless strong U.S. energy measures are enacted.

I. Current Production and Prices

Saudi oil production in 1978 will be limited by a self-imposed ceiling of 8.5 mmbd. This figure was reimposed by Oil Minister Yamani following 1977's unsuccessful attempt to beat down the OPEC level of prices through increased production, and generally corresponds with what oil market analysts expect will be the normal level of demand for Saudi oil in a soft market. Depending on the rate of economic recovery in the industrialized countries, the limitation, if maintained, may begin to constrain potential sales some time in 1979. Yamani has warned that renewed growth of oil consumption in 1979-80 could produce a major new price jump, and of course the production limitation, if held firmly when demand does begin to rise, would accelerate such a tendency. It should be noted, however, that the ceiling is based on an average rate for the year and, moreover, may apply to crude exports rather than production.

Oil production for 1977 averaged slightly over 9.2 mmbd, as lifttings increased toward year end. Aramco's production in December was a surprising 9.5 mmbd, reflecting perhaps some precautionary buying before the OPEC conference, as well as the effect of cold weather in the U.S. Current sustained productive capacity for Aramco is 10.5 mmbd, according to company sources. Although the technical
limitations on production of certain fields, imposed by the Saudis in late summer, appear to be nominally in effect, they are without major effect during this period of low demand. We note that the Ghawar field, which is subject to such technical limitations, was producing at 5.2 mmbd in November, the last month for which we have statistics.

Saudi oil prices, particularly for the heavy crudes, continue to be relatively attractive. (Even after the recent cut in price by Kuwait, its crude remains approximately 25¢ per barrel more expensive than the equivalent Saudi oil.) We have noticed no major change in the ratio of Saudi sales of heavy crude to light crude, however; it continues to run at about 4 to 1 in favor of the light crudes (which are from the fields under technical limitation).

The Saudis, however, do not intend to push crude sales; their policy in fact is probably the reverse. Yamani was quoted after the OPEC oil conference to the effect that Saudi Arabia would be ready, in the current soft oil market, to reduce its production if necessary to keep current prices firm, and there are indications that Saudi assurances on this score were useful in securing Iranian support for the price freeze at Caracas. The SAC, in this respect, seems to have moved closer to a formal acknowledgement of its role as swing producer and price stabilizer in OPEC, and to accepting some kind of unilateral prorationing responsibility.

II. Finance. The financial situation of Aramco, which produces 97% of Saudi oil, has become a question of major importance in establishing the country's oil production capacities. The company has traditionally funded its capital programs out of its cash flow, which has been adequate even for the major capacity expansions (approximately 1 mmbd per year) of the last few years. However, escalating project costs, unexpectedly high costs for maintenance of current production levels, plus the front-end capital requirements associated with building the gas gathering and Eastern Province Electrification schemes for the Saudi government, began to reach and
exceed cash flow availabilities in 1977 and created a serious financial crisis at the end of the year. As a result, the company for the first time had to apply to the SAG for a budgetary allocation to allow it to continue its programs.

The SAG response to Aramco’s problem has been to put the company on a "self-financing" regime with respect to its oil production activities. The government has on one hand agreed to advance money to fund the gas and electrification projects; we understand that the SAG has already advanced SR 100 million for the electrification and $300 million for the gas project. This will relieve from Aramco’s cash flow the substantial burden of payment against reimbursement lags of sometimes many months -- particularly as the capital requirements of the gas gathering program will peak over the next years. Aramco has, we understand, told the SAG that it will have to tailor its work on those two projects to the amount of money advanced by the SAG.

On the other hand, Aramco has been told that its oil production programs must be financed entirely from internally generated funds, and that it can expect no help from the state budget. With retained profits about 30c per barrel, that means that the company will have only $1.5 billion to spend each year (at current rates of production) for all its capital costs associated with oil production, expansion, and related infrastructure. Current production upgrading and expansion plans (see below) call for an expenditure of about $8.5 billion, indicating a completion date of about 1984. The major element of this program will be the requirement to upgrade substantially the current injection and production facilities so as to maintain present rates of production from existing fields. Added to that requirement will be the cost of developing new fields, increased supporting infrastructure including increasing employee costs, and new security precautions. (Fire disaster "single blanking" precautions taken at Abqaiq alone since last May’s fire have cost more than $300 million.)

III. Expansion Programs Clearly, a major constraint on Aramco’s expansion programs is the financial situation
described above. The company has had to tailor back its earlier plans for an installed facilities capacity of 16 mmbd in the mid-1980's to a more modest 13.5 mmbd -- indicating a probable sustained production rate of about 12-12.5 mmbd in 1984. About 11.5 mmbd of this capacity is expected to come from the existing major fields (approximately the same as present capacity), but only at the considerable expense of installing new (and, in some cases, replacing old) water injection, production, desalting, and pipeline facilities, as well as reworking the numerous wells now shut in. These major expenditures will be required to correct the deterioration of equipment and oilfield pressures being experienced at major fields such as Ghawar, Berri, and Abqaiq. The remaining 2 mmbd would come from expansion of production at existing, underproduced fields and tying in new ones not producing at present.

A further constraint on expansion of Aramco's productive capacity is the question of Saudi government policy. The internal debate within the SAG on the relative advantages of high versus low rates of oil production and financial accumulation has not been resolved, and is unlikely to be in the near run. Its existence, however, limits the company's options severely, and undoubtedly was instrumental in shaping the decision to put Aramco on its limited "self-financing" regimen. The company presently operates with Saudi members of its board from the Petroleum Ministry who, although they often dispute items with the parent company representatives, have been basically open to increased production plans. But following the takeover of Aramco, production-related expenditures and expansion plans are likely to be given a harder vetting, and perhaps a lower priority, by a board which may well include more Saudi officials opposed to expansion of oil production.

One element of existing Saudi policy which may constrain expansion plans is the SAG desire to decrease sales of light crudes relative to the heavier ones. Expansion of productive capacity for the heavier crudes could be every bit as expensive as for the lights, with less return to show for financing further increases.
A final problem which will hold back availability of Saudi crude for export is the rapid growth of internal petroleum product consumption. Saudi Arabia is a net importer of white products already, and is continuing to expand its transportation and light industrial sectors markedly with little consideration to cost factors (internal petroleum product prices are virtually subsidized). By the mid-1980's, the Saudis will probably be consuming over .75 mbpd of their own production locally.

IV. Exploration and Reserves Aramco once again discovered more oil in 1977 than it produced, keeping to its traditional record of adding each year to its reserves. No new field discoveries, however, were made during the year, and all new reserves were developed as outward delimitations of existing fields. Aramco sources estimate that the discovery rate will plateau within the next five years, and that about 30 billion barrels of reserves are all that can be added to today's 177 billion (proven and probable). The Saudi government, according to Yamani's recent comments, appears to believe that its reserves will give it somewhat less than thirty years' production at a sustained rate of less than 12 mbpd before beginning a rapid decline.

The Ministry of Petroleum is sponsoring seismic and geophysical exploration in areas outside the Aramco retained areas, but so far has not moved to issue exploration licenses or concessions. Considerable interest in some of those areas has been shown in past by oil companies, and it is possible that some significant discoveries and additional reserves could be proved if the areas were opened up. The low present priority given to such activity by the SAG, however, indicates that the likelihood of any important production increments coming from new areas by the mid-1980's is low.

V. Saudi Policy Aramco officials consistently claim that the main constraint facing them in increasing oil productive capacity is political. While this undoubtedly minimizes the extent of the technical, physical, and financial problems involved in creating increased production capacity, the fact remains that Saudi policy considerations have become a pervasive and determining element of the company's planning process.
Company officials are concerned that it may take very persuasive arguments to raise the present 8.5 mmbd ceiling. Our own feeling is that Saudi flexibility will depend to a large degree on external political factors such as movement toward Middle East peace. Given a promising or favorable political climate, we believe the SAG would not be able to hold to a ceiling which would have the effect of driving prices up sharply if held with persistence. On the other hand, if the Saudis are disappointed by political developments, there will be considerable internal political pressure to limit production as a means of influencing the behavior of the major oil importing countries.

There is, of course, no clear SAG policy on many of the issues determining future production rates. The debate between those who would restrict future production increases and those who would allow no or only minimal increases (no Saudis speak for unfettered increases) is, moreover, unlikely to be solved in the near future. In the past, Aramco was able to take advantage of any lack of SAG policy to move forward on its own. Today, with the 100% takeover all but complete as far as the companies are concerned, they can no longer assume such freedom; absence of clear policy freezes their options. The decision to put the company on a self-financing regime is a clear example of the compromise situations which the company will have to live with increasingly: while not formally rejecting the company's proposals to build greater production capacity, the government simply denied it the capability of going beyond a certain level in the foreseeable future.

The government's role is pervasive, the technical competence of its people increasing, and their readiness to stake out positions based on conservative resource-management principles also increasing. Setting budget priorities, monitoring oilfield pressures, determining the permitted use of other resources such as aquifer water, setting oilfield production rates, and otherwise, Saudi officials at the technical level can seriously affect the company's ability to reach its production goals even without higher policy decisions.
The hundred percent takeover of Aramco may be completed in 1978, but not necessarily so. Questions of royal family leadership and succession have complicated an already complex fabric of bureaucratic rivalries and policy conflicts so as to make prediction of a takeover date virtually impossible. In the meantime, Aramco has continued to operate under an interim regime which is financially similar to the arrangements negotiated in the draft takeover agreement, and subject to effective SAG control, but control exercised through a board of directors whose Saudi members are not hostile to the company's production goals. The post-takeover regime, company management fears, is almost certain to be less agreeable and much more likely to impose new conservationist priorities on the company's already limited expenditure programs. The form or powers of the post-takeover corporate entities have not yet been decided, and one of the key issues in this respect is whether the company will be subsidiary to a sponsoring Ministry of Oil, or a general government corporation dependent on the Council of Ministers or some other authority. Indications point to a structure consisting of a Saudi holding company and two dependent operating companies, one for production and one for oil sales, but no firm decisions have been taken. Consensus, the preferred Saudi method for decisionmaking, may be impossible to reach on the various takeover arrangements.

Saudi policy on oil questions over the past year has not, however, always been marked by consensus. The decisions before the Doha and Caracas OPEC conferences to push for oil price freezes were reportedly taken largely on the authority of Crown Prince Fahd against the advice of the majority (or even all) of the members of the High Petroleum Council. Prince Fahd's decisions in this respect were taken to a large degree for political reasons in the broader context of the Middle East peace effort, and to enhance U.S. recognition of the special U.S.-Saudi relationship. Such politicization of Saudi oil policy, while beneficial to us at present is not without its dangers.
Implications for the U.S. If Saudi Arabia can produce at a sustained rate of 12 or 12.5 million b/d only by 1984 or even 1985 (even assuming all "technical limitation" problems cited above are resolved), the energy crunch for the U.S. could arrive sooner than has been forecast in recent studies. A common supposition in the studies has been that Saudi Arabia would reach 13 million b/d in 1982 or 1983, and would eventually go to 16 million b/d in the mid-1980's. The forecasters may be required to revise their equations for the world energy supply model of the early 1980's.

Should the energy crunch for the U.S. (and the rest of the industrial world) occur sooner than present studies indicate, the programs of conservation and of search for alternate energy sources would have to be accelerated in the U.S.

There may, however, be some possibility for the U.S. to urge the SAG toward an upward revision of the above production figures. While the oil fields currently producing the lighter, more attractive crudes may indeed be limited in their capacity to produce large new increments of supply, other fields with substantial reserves (most of them heavy oil but one or two with light oil) will not be produced by the mid-1980's due almost exclusively to the SAG's limitations on capital expenditure programs. With the proper incentives -- economic and political -- the SAG might be encouraged to produce those fields, thereby adding up to 2 mmbd of additional sustained production capability. Prince Fahd and other other senior SAG officials have indicated that they would try to be helpful if the industrialized countries truly needed additional Saudi oil to avoid economic crisis.

Initiatives to this effect from the USG would, of course, increase the political content of an already heavily political oil supply relationship.

WEST
SECRET

1. DEPUTY MINISTER OF PETROLEUM AND MINERALS, ABDUL AZIZ TURKI, TOLD CHARGE ON MARCH 26 THAT SAG WOULD ATTEND THE APRIL 3 OPEC MEETING IN GENEVA AT MINISTERIAL LEVEL. MEETING WILL NOT HAVE A PREDETERMINED AGENDA, BUT QUESTION OF DENOMINATING OIL PRICES IN A NEW UNIT OF ACCOUNT BASED ON A FUTURE CRUDE OIL PRICE (CRO) WILL PROBABLY BE DISCUSSED.

2. CHARGE ASKED TURKI WHAT THE SAG POSITION WILL BE IF THIS ISSUE IS RAISED, AND TURKI REPLIED THAT SAG HAD NOT YET REACHED A FINAL DECISION.

3. CHARGE ASKED IF A FINAL DECISION FOR OPEC WOULD BE REACHED AT THE APRIL MEETING, AND TURKI REPLIED THAT ISSUE WOULD PROBABLY BE DISCUSSED AND THEN TURNED OVER TO OPEC'S ECONOMIC STAFF FOR FURTHER STUDY. STAFF WILL PROBABLY BE ASKED TO SUBMIT ITS RECOMMENDATIONS TO THE JUNE OPEC MEETING.
SECRET

4. COMMENT: WHILE SAUDIS HAVE BEEN QUITE FIRM IN MAINTAINING THAT THEY WILL CONTINUE TO ASK FOR PAYMENT FOR THEIR OIL IN DOLLARS, THEY HAVE BEEN RATHER AMBIGUOUS ON THE POSSIBILITY OF CHANGING THE UNIT OF ACCOUNT TO SOME OTHER COMBINATION OF CURRENCIES. WE BELIEVE THAT SAUDIS ARE ACUTELY CONSCIOUS OF THEIR OWN VAST DOLLAR DENOMINATED HOLDINGS AND WILL NOT TAKE ANY STEPS THAT MIGHT FURTHER AFFECT THE DOLLAR’S EXCHANGE RATE WITHOUT CAREFUL CONSIDERATION OF ALL RAMIFICATIONS OF SUCH AN ACTION.

5. RECOMMENDATION: IF DEPT OR INTELLIGENCE COMMUNITY HAS AN ANALYSIS OF THE CONSEQUENCES OF SUCH A MOVE ON THE WESTERN ECONOMIES AND ON THE VALUE OF THE DOLLAR, WE MIGHT CONSIDER PASSING IT TO THE SAUDIS BEFORE THE APRIL 3 OPEC MEETING.

WILEY
R 181243Z APR 78
FM AMEMBASSY JIDDA
TO RUEHC/SECSTATE WASH DC 1755
INFO RUOMI/AMEMBASSY ABU DHABI 1425

INFO RUOMH/AMEMBASSY TEHRAN 2921
ACTION COPY

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BRUSSELS FOR USEC

E.O. 11652; GDS
TAGS: FRNG; SA
SUBJECT: COMMENTS BY SAUDI OFFICIALS ON SAG OIL POLICIES

1. IN COURSE OF MEETINGS WITH NATIONAL WAR COLLEGE GROUP,
MINISTER OF PETROLEUM ZAKI YAMANI AND MINISTER OF PLANNING
HESHAM NAZER MADE SEVERAL STATEMENTS WHICH HELP ILLUMINATE
SAG OIL POLICIES.

2. WHEN ASKED WHETHER SAUDI ARABIA WOULD EXPAND
PRODUCTION TO 16 MILLION B/D BY 1985, YAMANI SAID HE
HAD SEEN REPORTS THAT THIS COULD BE AMOUNT OF PRODUCTION
NEEDED FROM SAUDI ARABIA, BUT HE THOUGHT THAT
THESE REPORTS EXAGGERATED REQUIREMENTS. HE THEN
ADDED THAT "EVEN IF YOU NEED THAT MUCH, YOU WILL NOT
GET IT." COMMENT: THIS IS THE BLUNTEST STATEMENT WE
HAVE HEARD FROM SAG THAT FUTURE SAUDI PRODUCTION
INCREASES WILL BE LIMITED. END COMMENT.

3. ASKED HOW DECISIONS ARE MADE WITHIN SAG ON
PRODUCTION, YAMANI SAID THESE DECISIONS ARE MADE
BY PETROLEUM COUNCIL ON BASIS OF EXPECTED WORLD
DEMAND, RATE OF DEPLETION AND LIFE SPAN OF SAUDI
RESOURCES, AND NEEDS OF FUTURE GENERATIONS IN
SAUDI ARABIA.

4. IN DISCUSSING DOLLAR, YAMANI MADE USUAL SAG
DISTINCTION BETWEEN OIL PRICING AND OIL PAYMENT.
HE SAID THAT AS FAR AS PAYMENT WAS CONCERNED, THERE
WAS NO OTHER CURRENCY THAT CAN BE USED.
IN FACT, NO OTHER COUNTRY WOULD AGREE TO HAVING ITS
CURRENCY USED FOR THIS PURPOSE. IF MARK OR YEN
WERE USED, THEN VALUE OF THAT CURRENCY WOULD BE
IMMEDIATELY DOUBLED. PRICING IS ANOTHER MATTER.
IF CURRENCY BASKET IS USED FOR THAT PURPOSE, DOLLAR

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PRICE WOULD DEPEND ON VALUE OF DOLLAR IN BASKET.
HE REVIEWED EARLIER INDEXATION EFFORTS (GENEVA I AND II), BUT AVOIDED GIVING ANY INDICATION OF SAG'S CURRENT POSITION OR POSITION OF ITS OPEC PARTNERS.

5. PLANNING MINISTER NAZER TOLD GROUP, IN RESPONSE TO AREA, THAT SAG BELIEVES THAT INTERNATIONAL COMPANIES SHOULD BUILD ALL THEIR FUTURE PETROCHEMICAL PLANTS IN PRODUCING AREAS, PARTICULARLY IN THE GULF. HE SAID SAG BELIEVES MARKET WILL SUPPORT NEW PLANTS BY 1983, AND THAT THERE WILL BE SHORTAGE OF PETROCHEMICAL CAPACITY AFTER 1986. WEST

BT 2922
AmEmbassy TEHRAN

ACTION: ECONS

INCOMING TELEGRAM

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041335Z MAY 78
INFO: FM AMEMBASSY DJIBOUTI
TO RUEHC SECSTATE WASHDC 962
AMBUS INFO RUTABA/AMEMBASSY ADDIS ABABA 432
DCM/L YUHOL/AMEMBASSY BONN 35
SA/YUEH/AMEMBASSY CAIRO 161
SA/RUNNKR/AMEMBASSY KHARTOUM 178
POL/RTID/AMEMBASSY LONDON 72
ECON/RUOMD/AMEMBASSY NAIROBI 958
PM/RUFNP/AMEMBASSY PARIS 351
ICA/C/CHUHR/AMEMBASSY ROME 49
CONS/RUQNN/AMEMBASSY JAKARTA 260
R UQNN/AMEMBASSY TEHRAN 31
OR/RUEH/USMISSION USUN NEW YORK 214
ADM/L/ROMBA/CINCUSVEUR
GSO/RUSSAA/USCINCEUR
BF/RUNQMO/CINCPAC
PER/DT
HU/CONFIDENTIAL DJIBOUTI 631
RSO/EQ. 116521 GDS
MSG/TAGS: EAD, PDIF, PDEV, BEXP, DJ, SA
TDS/SCB: SUBSTANTIAL SAUDI ASSISTANCE PROGRAM FOR DJIBOUTI
SCRO/1. AFTER MANY MONTHS OF GESTATION, A SAUDI ASSISTANCE PROGRAM TOTALING-
CRU/LY U.S. ADOLS. 69
TCU/MILLION WASS CONCLUDED WITH THE GOVERNMENT OF DJIBOUTI THIS PAST-
MP/WEEK AND ANNOUNCED PUBLICLY ON 2 MAY. THE PROJECTS COVER MANY-
DAQ/CRIICAL AREAS, INCLUDING TELECOMMUNICATIONS, EDUCATION, IMPROVEMENT-
MAAG/IN PORT AND AIRPORT SERVICES, ROADS, RELIGION, HOUSING, HEALTH AND-
AAH/SOCIAL SERVICES.

AGH/2. FOLLOWING IS A DESCRIPTION OF THE PROJECTS. THE DOLLAR-
DEA/TOTALS HAVE NOT BEEN ANNOUNCED PUBLICLY. THEY WERE OBTAINED-
IRS/FROM A REPUTABLE DJIBOUTI GOVERNMENT SOURCE:
TCTR/ELECTRIC TURBINE FOR THE DJIBOUTI ELECTRIC COMPANY.
CEC/THIS MACHINE WILL PROBABLY BE PURCHASED FROM FRENCH FIRM THAT-
CEOC/SUPPLIED EXISTING EQUIPMENT. VALUE: 4,000,000
CEOR/ADDITIONAL AIRPORT PARKING APRON. AT PRESENT TIME, ONLY ONE-
CRU/BOEING 747 CAN BE PARKED IN AREA OF AIRPORT TERMINAL. THIS WILL ADD-
CRU/ONE ADDITIONAL TAXIING AND PARKING AREA FOR LARGE AIRCRAFT. VALPE-
DLS. 1,987,500
SHIRL/CITY FREEZING PLANT TO ASSIST IN DEVELOPMENT OF LOCAL LIVESTOCK-
TABZ/COMMERCIALIZATION, AT PRESENT TIME, MOST MEAT CONSUMED IN DJIBOUTI-
TABZ/CITY II S IMPORTED. KVBRJE. DOLS. 1,780,000
ISFA/SATELLITE EARTH STATION. THIS PROJECT WAS DESCRIBED IN EMBTEL-
354. VALUE OF PROJECT DOLS 2,500,000
FAA/Low cost housing for civil servants. First tranche costs-
DOLS. 5,000,000
MICROWAVE SYSTEM TO SUPPORT EARTH STATION, ALSO DESCRIBED

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IN ENVTL. 354, COST DOLS. 2,000,000

- FEASIBILITY STUDY FOR TADJOURAH-DJIBOUTI ROAD. DOLS 500,000
- AGRICULTURE: PROJECTS PLANNED FOR DJIBOUTI AREA (AMBOUTD AND GRAND BARA). MONEY ALLOCATED DOLS 5,000,000
- FEASIBILITY AND DESIGN STUDY FOR WATER BOTTLING PLANT AT TADJOURAH. COST US DOLS 900,000
- HOSPITAL CONSTRUCTION. TO BUILD TWO NEW WINGS AT THE PILTIER HOSPITAL IN DJIBOUTI AND FOR DESIGN STUDY FOR HOSPITAL AT OBOCK. COST DOLS. 6,400,000
- ORPHANAGE FOR DJIBOUTI. COST DOLS. 750,000
- ARAB LANGUAGE PRINTSHOP. COST DOLS. 1,600,000
- EQUIPMENT FOR GOVERNMENT OFFICES (TYPEWRITERS, COPIERS, ETC.) MONEY ALLOCATED: DOLS. 1,800,000
- EDUCATION ACCORDING TO EMBASSY INFORMANT, THIS MONEY WILL BE ADDED TO OVERALL EDUCATION BUDGET (NO TIME-LIMIT SPECIFIED) AND CAN BE USED FOR FRENCH LANGUAGE INSTRUCTION AS WELL AS CONVERSION TO ARABIC LANGUAGE CURRICULUM. ALLOCATION DOLS. 14,000,000
- CONSTRUCTION OF MOSQUES. COST DOLS 1,600,000
- BUDGET ASSISTANCE. COST DOLS. 5,000,000
- TOTAL VALUE OF PROJECTS: DOLS. 59,807,000

3. BECAUSE OF SAUDI CONCERN RE POSSIBILITIES FOR MALFEASANCE, A PROJECT MANAGER WILL BE ASSIGNED TO THE SAUDI EMBASSY, DJIBOUTI TO SUPERVISE DISBURSEMENTS.

4. PROJECTS WILL BE DEVELOPED VIA INTERNATIONAL TENDERS. POST WOULD APPRECIATE ANY INSIGHTS FROM AN EMBASSY JIDDA ABOUT SAUDI BUILDING PRACTICE SOME AMERICAN COMPANIES HAVE CONSIDERABLE EXPERIENCE WORKING WITH THE SAUDI GOVERNMENT IN SAUDI ARABIA AND ELSEWHERE, AND WE WOULD HOPE THAT SOME OF THE ABOVE PROJECTS WOULD BE ACCORDED TO U.S. FIRMS.
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R 220958Z MAY 78
FM AMEMBASSY JIDDA
TO RUEHC/SECSTATE WASHDC 2120
RUCMBI/AMEMBASSY ABU DHABI 1440
RUFHRS/AMEMBASSY ALGIERS 641
RUECRAQINT BAGHDAD 259
RUCREM/AMEMBASSY BEIRUT 7067
RUFHOL/AMEMBASSY BONN 567
RUFHBS/AMEMBASSY BRUSSELS 433
RUESRS/AMEMBASSY CARACAS 177
RUMDM/AMCONSUL DHAHRAN 1144
RUGMOD/AMEMBASSY DOHA 547
RUFMOV/USHJSSN GENEVA 253
RUKOBI/AMEMBASSY JAKARTA 221
RUMKM/AMEMBASSY KUWAIT 3890
RULTALS/AMEMBASSY LAGOS 184
RUFHLC/AMEMBASSY LIBREVILLE 23
RUDTC/AMEMBASSY LONDON 3873
RUFNPS/AMEMBASSY PARIS-1802
RUESQI/AMEMBASSY QUITO 47
RUGMYA/USLC RIYADH 1649
RUGMHR/AMEMBASSY TEHRAN 2508
RUEHKO/AMEMBASSY TOKYO 348
RUGMTT/AMEMBASSY TRIPOLI 347
RUFRAU/AMEMBASSY VIENNA 220

BY
CONFIDENTIAL JIDDA 3800

E.O. 11652: GDS
TAGS: ENRG, SA
SUBJECT: YAMANI ON OIL PRICES

1. DEPARTMENT WILL PROBABLY HAVE NOTICED TEXT OF INTERVIEW GIVEN BY MIN PET 'YAMANI TO CHICAGO TRIBUNE ECONOMIC EDITOR LAST WEEK IN RIYADH, IN WHICH YAMANI DISCUSSED POSSIBILITY OF OIL PRICE INCREASE IN 1979. AFTER DESCRIBING HIS PROJECTION OF OIL MARKET IN TERMS SIMILAR TO ONES HE USED WITH JOURNALISTS AT END OF TAIF OPEC MEETING (I.E., SURPLUS FOR ANOTHER YEAR OR SO, MARKET EQUILIBRIUM FOR ANOTHER 5-6 YEARS, THEN PERIOD OF OIL SHORTAGE), YAMANI MADE ARGUMENT FOR SERIES OF GRADUAL OIL PRICE INCREASES IN EARLY 1980'S, RATHER THAN EFFORT TO HOLD PRICES DOWN ONLY TO HAVE THEM GO THROUGH ROOF IN SUBSEQUENT SHORTAGE PERIOD. IN SHORT TERM, HE SAID, THERE IS 50-50 CHANCE OF OIL PRICE INCREASE AT BEGINNING OF 1979.

2. COMMENT: YAMANI'S RECENT STATEMENTS SEEM TO BE SIGNALLING THAT SAG WILL CONTINUE STRONGLY TO OPPOSE PRICE RISE IN 1978, BUT THAT ITS POLICY ON PRICE IN 1979 AND BEYOND WILL BE INFLUENCED BY ITS PERCEPTION

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OF WHAT MARKET WILL BEAR. GIVEN INCREASING CONSERVA-
TIONIST ATMOSPHERE IN SAUDI ARABIA, LOW CURRENT PRO-
DUCTION RATES ARE ACCEPTABLE TO SAG, WHICH IS PREPARED
TO PLAY ITS PREDOMINANT ROLE IN SUPPORTING OPEC PRICE
LEVEL AS LONG AS OTHER PRODUCERS ARE NOT MANEUVERING
TOO BLATANTLY TO INCREASE THEIR MARKET SHARE AT SAUDI
EXPENSE. LOW CURRENT PRODUCTION HAS EASED IMMEDIATE
PRESSURE ON SAG TO INCREASE EVENTUAL PRODUCTION
CAPACITY, WHILE AT SAME TIME REDUCING THE FUNDS
AVAILABLE TO DO SO. THE SAG UNDOUBTEDLY FINDS THE
RESULTANT AMBIGUITY ABOUT ITS FUTURE PRODUCTION
CAPACITY AND INTENTIONS TO BE A CONSTRUCTIVE PROD TO
CONSUMING NATIONS TO REDUCE OIL IMPORTS, AND BELIEVES
THAT THE PROSPECT OF MODERATE PRICE RISES IN THE
1980'S WILL ALSO BE INCENTIVE FOR REDUCED IMPORTS.
WE BELIEVE THAT SAG CAN BE EXPECTED TO MOVE DELIB-
ERATELY (AND PROBABLY UNILATERALLY), FOLLOWING THE
PRESENT PERIOD OF GLUT, IN A WAY WHICH WILL HELP KEEP
THE MARKET TIGHT AND PRICES FIRM OR CLIMBING GRADUALLY.
GIVEN SAUDI ARABIA'S ABILITY TO INFLUENCE THE SIZE OF
THE POTENTIAL OIL SHORTAGE HE FORESEES FOR MID-1980'S,
YAMANI'S COMMENTS SHOULD PERHAPS BE SEEN MORE AS
PREDICTIONS OF INTENT RATHER THAN AS DISINTERESTED
ESTIMATES. WILEY

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MEMORANDUM OF CONVERSATION

SUBJECT: Bonn Economic Summit, Oil Policies, and Aid

PARTICIPANTS: H.R.H. Prince Saud bin Faisal
Minister of Foreign Affairs

H.E. Abdullah M. Ali Reza
Deputy Minister for Economic, Petroleum
and Cultural Affairs, Foreign Ministry

Richard Cooper
Under Secretary of State for Economic Affairs

Ambassador John C. West

Joseph T. Eblan
Counselor for Economic and Commercial Affairs

PLACE: Ministry of Foreign Affairs
summer office, Taif

DATE: July 22, 1978

Ottawa, Bonn and OPEC countries;
State (WEA/ARP, EB/FSE); Amb/DCP, ECON.

Under Secretary Cooper opened the discussion stating
that the President wished him to give Saudi Arabia a briefing
on the Bonn Economic Summit. He stated that this was his
first trip to Saudi Arabia. Prince Saud replied that he
hoped that this would be the first of many visits by Unde.
Secretary Cooper and that the Kingdom valued the insights
provided by such visits.

Under Secretary Cooper then gave the Minister an in-depth
briefing on the Bonn Economic Summit, particularly emphasiz-
ing the role of the Summiters and the parallel group of
officials of which he was part, nicknamed the Sherpas or
guides. Cooper explained that the atmosphere of the Summit

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was excellent but that perhaps the world press over-emphasized this aspect since there were serious problems discussed, particularly in the sherpas' segment. Among the main problems which surfaced was the one of economic growth in Germany where new investment was at a low rate and unemployment was growing. As for the United States, Under Secretary Cooper indicated that there had been a wider sense of understanding on the part of the Europeans and Japan for U.S. problems, and an awareness that steps were being taken, particularly in energy conservation where, without specific legislation, the U.S. was achieving a better record than some European countries.

Prince Saud then stated that during his recent visit to Europe with King Khaled, he had noticed particularly the Europeans' awareness and understanding of America's problems. He stated that the Europeans acknowledged U.S. economic leadership but want the U.S. to take firmer stands and come down hard on petroleum conservation. He made a downswipe motion with his hand to emphasize the point. Ambassador West said that this information, which confirms our experience at the Summit, was of great interest, and hoped that SAG-U.S. cooperation in this respect would continue to grow in the interest of both countries.

Regarding oil prices and finance, Prince Saud noted that Saudi Arabia as well as other OPEC countries were getting less return on their oil sales due to the decline of the dollar. This problem is now being compounded by self-imposed production limitations, which were effected not only to safeguard reserves, but to comply with OPEC co-member interests. Saudi Arabia had to comply with reasonable demand by fellow OPEC members and had to weigh this action against the desire to contribute to economic stability in the western world. In reply to Under Secretary Cooper's query, he stated that Saudi maximum sustained production of petroleum was a bit over 10 million b/d, and that heavy financial expenditures would have to be made by SAG to increase this level. At the present time, the daily production limit for 1978 is 8.5 million b/d. (Note: Average daily production for the first 5 months of 1978 has been about 7.2 million b/d.)
Regarding further solution of energy conservation in the U.S., Prince Saud noted that institution of an equalization tax (COET) on oil imports is a matter only the U.S. can decide, but that this could lead to higher prices by producers. In this case, Saudi Arabia would find it difficult to hold the price line.

Regarding aid, Under Secretary Cooper stated that, with the present attitude of the U.S. public towards taxes, the increase of U.S. aid levels would be the most difficult subject to present to Congress in the coming months. Cooper acknowledged U.S. awareness of the significant high levels of Saudi aid giving and hoped that this would be maintained and even increased. He pointed out the very heavy proportion of U.S. aid to Egypt which he believed will continue. Prince Saud mentioned the problems of being an aid donor, particularly to Egypt, because of the difficulty in identifying meaningful project aid in new investments due to the slowness of Egyptian bureaucracy in changing investment laws and providing data. Nevertheless, it was in SAG/US mutual interest to maintain the level of aid to Egypt for many reasons. (Note: At this point Abdullah Ali Reza passed two written notes to Prince Saud. FYI. Abdullah Ali Reza regards aid to Egypt as a necessary rat-hole operation.) Prince Saud made no further comment on aid to Egypt.

Under Secretary Cooper returned to the Summit briefing and explained that the terrorism statement by the participants was broached by Trudeau of Canada. Since the occasion presented a good opportunity for a joint position on the subject, the anti-terrorism statement was made and approved.

Under Secretary Cooper opined to Prince Saud that all the European governments now seemed to be coalitions of varying degrees from which one could assume that agreements at the Summit represented national consensus on the part of the European countries. Even the Japanese ruling party was a coalition of sorts. This was a phenomenon worthy of note since it matched the policy divisions that prevail in the U.S. Under Secretary Cooper stated that the U.S. had urged the Europeans to stimulate more economic growth and the
Japanese to widen the opening to its markets for investment as well as trade. Investment in Japan, however, would continue to be a problem because of language as well as restrictive Japanese regulations. A heartening sign for the health of the U.S. economy was the heavy surge of foreign investment in the U.S., particularly by Germany and lately by Japan.

Under Secretary Cooper mentioned the potential for Saudi Arabia increasing co-financing of aid with international organizations. Prince Saud indicated that Saudi Arabia was amenable to the support of IMF and a selective quota increase. He also mentioned positive Saudi policy towards various regional development bank aid outlets as well as the World Bank. SAG hoped at least to maintain its levels of aid outflows through these channels.

Under Secretary Cooper mentioned his appreciation for Saudi comments and hoped to visit the Kingdom again. Prince Saud expressed gratitude of the Saudi Government for the excellent briefing on the Summit and looked forward to further visits by the Under Secretary.
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R.O. 11652: GDS
TAGS: KFIN, SA
SUBJ: SAUDI RESPONSE TO BUDGET DEFICIT

DEF: (A) JIDDA 30676, (B) RYADH 605

1. THE EMBASSY HAS PREVIOUSLY REPORTED LIKELIHOOD OF SAG DEFICIT THIS FISCAL YEAR. USL0 HAS LEARNED THAT IN REVIEWING THE BUDGET, THE COUNCIL OF MINISTERS WAS FACED WITH A MUCH LARGER PROSPECTIVE DEFICIT WHICH IT AVOIDED ONLY BY REQUIRING ALL MINISTRIES TO USE ONLY TWO-THIRDS OF WHAT THE MINISTRY OF FINANCE HAD AUTHORIZED THEM TO SPEND. THIS YEAR'S BUDGET WAS BASED ON THAT REDUCED TOTAL. AS A RESULT, EACH MINISTRY HAS BEEN REASSESSING ITS PROGRAMS TO IDENTIFY WHICH PROJECTS CAN BE CUT. IN THE MEANTIME, PROJECTS HANG IN LIMBO, FUNDS HAVE BEEN FROZEN, AND A MOOD OF UNCERTAINTY PREVAILS AMONG ADVISORS AND CONTRACTORS.

2. THE SHORTFALL APPEARS TO HAVE CAUSED THE SAG COMPLETELY BY SURPRISE, LARGELEY BECAUSE THE MINISTRY OF FINANCE HAD NO WAY TO SYSTEMATICALLY RELATE FUNDING DECISIONS TO ANTICIPATED REVENUES. REQUESTS FROM MINISTRIES WERE EXAMINED AND APPROVED INDIVIDUALLY WITHOUT ANY REFERENCE TO AN OVERALL SPENDING CEILING. ONLY AFTER THE MINISTRY OF FINANCE MADE BENDING FUNDING COMMITMENTS TO OTHER MINISTRIES DID IT ADD UP THE TAB. TO ITS HORROR IT FOUND THAT NOT ONLY WAS PROJECT FUNDING 4% PERCENT; IT WAS FAR IN EXCESS OF PROJECTED REVENUES BASED ON THE SAUDI OIL PRODUCTION CEILING OF 4.5 MILLION B/D. FINANCE PRESENTED THE FIGURES TO THE COUNCIL OF
MINISTERS AND ASKED FOR HELP. THE COUNCIL OF MINISTERS RESPONDED WITH A DECREE CUTTING PROJECT EXPENDITURES BY 33 PERCENT. THE AMOUNT FINANCE CALCULATED NECESSARY TO WIPE OUT THE DEFICIT.

3. THE DECREE CAME OUT IN MID-JUNE AND OFFICIALS ARE STILL HAVING DIFFICULTY IMPELLING IT. FIRST, MANY SIMPLY DELAYED TAKING ACTION BECAUSE THEY DID NOT BELIEVE THE CUT WOULD BE ENFORCED. THEN QUESTIONS AROSE AS TO WHAT BASE THE 33 PERCENT CUT WAS TO BE IMPOSED ON. BUT MOST IMPORTANT, MINISTRIES ARE THROWN BACK INTO THE PLANNING STAGE SINCE THEY MUST REASSESS PRIORITIES AND TRY TO MAINTAIN THE OUTLINES OF PROGRAMS THAT WERE MEANT TO BE MUCH LARGER. THE MINISTER OF AGRICULTURE AND WATER HAS BEEN HARD HIT BECAUSE IT HAS RECEIVED THE BIGGEST PERCENTAGE INCREASE AND NOW MUST HAVE TO Dismantle AN INTEGRATED TEAM OF SPECIALISTS WHO CANNOT BE EASILY REASSEMBLED. WE HAVE HEARD MOVES THAT FUNDING FOR SEVERAL OF THE REGIONAL ELECTRIFICATION PROJECTS WAS IN DOUBT AND HAVE BEEN TOLD BY ARAMCO THAT IT WAS ABLE TO BREAK LOOSE FUNDS FOR THE EASTERN PROVINCE ELECTRIFICATION SCHEME ONLY WITH DIFFICULTY. FINALLY, SEVERAL CORPS OF ENGINERS PROJECTS WITH THE MINISTRY OF DEFENSE HAVE BEEN UNEXPECTEDLY DEFERRED (SEE REF B) AND THE CORPS HAD TO APPLY UNPRECEDEDENTED PRESSURE TO GET A COMMITMENT ABOUT WHICH PROJECTS WERE FUNDED.

4. ONLY AFTER GETTING THE COUNCIL OF MINISTERS TO ACT DID THE MINISTRY OF FINANCE REALIZE THAT THE CUT IT HAD RECOMMENDED TO THE COUNCIL WAS BASED ON WHAT SHOULD HAVE BEEN AN OVERTvable OVERSIGHT; DUE TO BLACK DEMAND OIL LIFTINGS WERE NOT 6.5 MILLION B/D BUT ONLY 7.2. THE MINISTRY IS UNDERSTANDABLY RELUCTANT TO GO BACK TO THE COUNCIL OF MINISTERS AND HAS RESIGNED ITSELF TO DRAWING FROM SAMA HOLDINGS ABROAD IF AN ACTUAL DEFICIT MATERIALIZES. THAT DEFICIT COULD BE AS MUCH AS 5 BILLION DOLLARS ASSUMING THAT OIL LIFTINGS STAY AT 7.2, OPEC PRICES DO NOT RISE, AND EVERY RIVAL THAT WAS BUDGETED IS SPENT. IN FACT OVERALL SPENDING LAST YEAR WAS 96 PERCENT AND THERE IS A FEELING IN THE MINISTRY OF FINANCE THAT OPEC PRICES WILL SOON BE INCREASED BY ABOUT 5 PERCENT, BUT EVEN THAT WOULD COVER ONLY FOUR MONTHS OF THE DEFICIT, OTHER FACTORS CONSTANT.

5. THE MINISTRY OF FINANCE IS UNPREPARED FOR THE NEW AGE OF LIMITS IN YET ANOTHER RESPECT; IT HAS NO MECHANISM FOR REGULATING CASH FLOWS SO THAT FUNDS ARE NOT SPENT FASTER THAN OIL IS PUMPED. LEGALLY A MINISTRY MAY DRAW ITS ENTIRE ALLOCATION AT THE BEGINNING OF THE YEAR. WHILE THIS IS NOT LIKELY TO BE A PROBLEM THIS YEAR BECAUSE OF FUNDING DELAYS, IT INDICATES THAT SAG IS GOING TO HAVE TO RIDE BUDGET CONSULTANTS AS WELL AS PLANNERS.

6. COMMENT: THE INCOME CONSTRAINT ON NATIONAL DEVELOPMENT HAS BEEN FORCEFULLY BROUGHT HOME TO THE COUNCIL OF MINISTERS. THE FACT THAT THE SAG WAS SO SURPRISED AND REACTED SO STRONGLY SUGGEST THAT THERE MAY SOON BE POLICY SHIFTS ON SUCH ISSUES AS OPEC PRICING.

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R.U. 10001 GDS
TAGS: AFIN, SA

SUBJ: SAUDI RESPONSE TO BUDGET DEFICIT

REF: (A) JIDDA 294276, (B) RIYADH G05

I. THE EMBASSY HAS PREVIOUSLY REPORTED LIKELIHOOD OF SAG DEFICIT
THIS FISCAL YEAR. USLO HAD LEARNED THAT IN REVIEWING THE BUDGET
THE COUNCIL OF MINISTERS WAS FACED WITH A MUCH LARGER PROSPECTIVE
DEFICIT WHICH IT AVOIDED ONLY BY REQUIRING ALL MINISTRIES TO USE
ONLY TWO-THIRDS OF WHAT THE MINISTRY OF FINANCE HAD AUTHORIZED
 THEM TO SPEND. THIS YEAR'S BUDGET WAS BASED ON THAT REDUCED TOTAL.
A RESULT, EACH MINISTRY HAS BEEN REASSIGNING ITS PROGRAMS TO
IDENTIFY WHICH PROJECTS CAN BE CUT. IN THE MEANTIME PROJECTS HANG
IN LIMBO, FUNDS HAVE BEEN FROZEN, AND A MOOD OF UNCERTAINTY PREVAILS
AMONG ADVISORS AND CONTRACTORS.

II. AS SHORTFALL APPEARS TO HAVE CAUGHT THE SAG COMPLETELY BY
SURPRISE, LARGELY BECAUSE THE MINISTRY OF FINANCE HAD NO WAY TO
SYSTEMATICALLY RELATE FUNDING DECISIONS TO ANTICIPATED REVENUES.
REQUESTS FROM MINISTRIES WERE EXAMINED AND APPROVED INDIVIDUALLY
WITHOUT ANY REFERENCE TO AN OVERALL SPENDING CEILING. ONLY AFTER
THE MINISTRY OF FINANCE MADE REWORKING FUNDING COMMITMENTS TO OTHER
MINISTRIES DID IT ADD UP THE TAB. TO ITS HORROR IT FOUND THAT NOT
ONLY WAS PROJECT FUNDING 40 PERCENT! IT WAS FAR IN EXCESS OF
PROJECTED REVENUES BASED ON THE SAUDI OIL PRODUCTION CEILING OF
6.5 MILLION B/D. FINANCE PRESENTED THE FIGURES TO THE COUNCIL OF

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MINISTERS AND ASKED FOR HELP. THE COUNCIL OF MINISTERS RESPONDED WITH A DECREE CUTTING PROJECT EXPENDITURES BY 35 PERCENT, THE AMOUNT FINANCE CALCULATED NEEDED TO WIPE OUT THE DEFICIT.

3. THE DECREE CAME OUT IN MID-JUNE AND OFFICIALS ARE STILL HAVING DIFFICULTY IMPLEMENTING IT. FIRST, MANY SIMPLY DELAYED TAKING ACTION BECAUSE THEY DID NOT BELIEVE THE CUT WOULD BE ENFORCED. THEN QUESTIONS AROSE AS TO WHAT BASE THE 35 PERCENT CUT WAS TO BE IMPOSED ON. BUT MOST IMPORTANT, MINISTRIES ARE THROWING BACK INTO THE PLANNING STAGE SINCE THEY MUST REASSESS PRIORITIES AND TRY TO MAINTAIN THE OUTLINES OF PROGRAMS THAT WERE MEANT TO BE MUCH LARGER. THE MINISTRY OF AGRICULTURE AND WATER HAS BEEN HARD HIT BECAUSE IT HAD RECEIVED THE BIGGEST PERCENTAGE INCREASE AND NOW MAY HAVE TO DISMANTLE AN INTEGRATED TEAM OF SPECIALISTS WHO CANNOT BE EASILY REASSEMBLED.

WE HAVE BEEN TOLD THAT FUNDING FOR SEVERAL OF THE REGIONAL ELECTRIFICATION PROJECTS WAS IN DOUBT AND HAVE BEEN TOLD BY ARAMCO THAT IT WAS THINKING OF DRAWING LINES FOR THE EASTERN PROVINCE ELECTRIFICATION SCHEME ONLY WITH DIFFICULTY. FINALLY, SEVERAL CORPS OF ENGINEERS PROJECTS WITH THE MINISTRY OF DEFENSE HAVE BEEN UNEXPECTEDLY DEFERRED (SEE LEX 3) AND THE CORPS HAD TO APPLY UNPRECEDEDENT PRESSURE TO GET A COMMITMENT ABOUT WHICH PROJECTS WERE FUNDED.

4. ONLY AFTER GETTING THE COUNCIL OF MINISTERS TO ACT DID THE MINISTRY OF FINANCE REALIZE THAT THE CUT IT HAD RECOMMENDED TO THE COUNCIL WAS IN fact BASED ON WHAT SHOULD HAVE BEEN AN OBVIOUS OVERSIGHT; DUE TO SLACK DEMAND OIL LIFTINGS WERE NOT 8.5 MILLION B/D BUT ONLY 7.2. THE MINISTRY IS UNDERSTANDABLY RELUCTANT TO GO BACK TO THE COUNCIL OF MINISTERS AND HAS RESIGNED ITSELF TO DRAWING FROM SOME HOLDINGS ABROAD IF AN ACTUAL DEFICIT MATERIALIZES. THAT DEFICIT COULD BE AS HIGH AS 5 BILLION DOLLARS ASSUMING PHALO LIFTINGS STAY AT 7.2, OPEC PRICES DO NOT RISE, AND EVERY RIAL THAT WAS BUDGETED IS SPENT. IN FACT OVERALL SPENDING LAST YEAR WAS 96 PERCENT AND THERE IS A FEELING IN THE MINISTRY OF FINANCE THAT OPEC PRICES WILL SOON BE INCREASED BY ABOUT 5 PERCENT, BUT EVEN THAT WOULD COVER ONLY FOUR MONTHS OF THE DEFICIT, OTHER FACTORS CONSTANT.

5. THE MINISTRY OF FINANCE IS UNPREPARED FOR THE NEW AGE OF LIMITS IN YET ANOTHER RESPECT; IT HAS NO MECHANISM FOR REGULATING CASH FLOWS SO THAT FUNDS ARE NOT SPENT FASTER THAN OIL IS PUMPED.

LEGALLY A MINISTRY MAY DRAW ITS ENTIRE ALLOCATION AT THE BEGINNING OF THE YEAR. WHILE THIS IS NOT LIKELY TO BE A PROBLEM THIS YEAR BECAUSE OF FUNDING DELAYS IT INDICATES THAT SAG IS GOING TO HAVE TO HIRE BUDGET CONSULTANTS AS WELL AS PLANNERS.

6. COMMENT: THE INCOME CONSTRAINT ON NATIONAL DEVELOPMENT HAS BEEN FORCEFULLY BROUGHT HOME TO THE COUNCIL OF MINISTERS. THE FACT THAT THE SAG WAS SO SURPRISED AND REACTED SO STRONGLY SUGGESTS THAT THERE MAY SOON BE POLICY SHIFTS ON SUCH ISSUES AS OPEC PRICING.

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RUQMEI/AMBASSAD ABU DHABI 97
RUFHRS/AMBASSAD ALGIERS 216
RUQMOD/AMBASSAD DOHA 76
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RUTALS/AMBASSAD LAGOS 302
RUKIDT/AMBASSAD JAKARTA 386
RUHMC/AMBASSAD LIBREVILLE 84
RUESGI/AMBASSAD QUITO 2271
RUWCH/AMBASSAD ANKARA 58
RUQMAT/AMBASSAD ATHENS 103
RUCSREEQ/AMBASSAD BERN 63
RUFEOL/AMBASSAD BONN 314
RUFRES/AMBASSAD BRUSSELS 215
RUFPDNS/AMBASSAD COPENHAGEN 62
RUFRDQF/AMBASSAD DUBLIN 25-
RUFRGC/AMBASSAD LONDON 1026
RUFPEG/AMBASSAD LUXEMBOURG 26
RUFactors/AMBASSAD MADRID 798
RUDASNQ/AMBASSAD OSLO 49
RUFPORT/AMBASSAD OTTAWA 295
RUFNPS/AMBASSAD PARIS 906
RUFHRO/AMBASSAD ROME 403
RUFPDNS/AMBASSAD STOCKHOLM 97
RUDKGPQ/AMBASSAD TBF HAGUE 272
RULWEO/AMBASSAD TOKYO 243
RUFRAV/AMBASSAD VIENNA 453
RUEBEAZ/AMBASSAD WELLINGTON 20
RUEHOR/USINT BAGDAD 65
RUMGME/AMBCONSUL DHARAM 218

CONFIDENTIAL SECTION 1 OF 4 CARACAS 10288

BRUSSELS ALSO FOR USEGEC
PARIS ALSO FOR USEGEC

F.O. 11552: GDS
TAGS: EIRG OPEC EVIN VE SA
SUBJECT: SAUOIL MINISTER TAMANI VISITS VENEZUELA

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REF: A) CARACAS 10158 F) JIDDA 7694 N0TAL

SUMMARY: SAUDI OIL MINISTER YAMANI CONCLUDED A FIVE DAY SURPRISE VISIT TO VENEZUELA SAYING THAT THE POSITIONS OF THE TWO COUNTRIES ARE NOW VERY CLOSE ON THE QUESTION OF AN OIL PRICE INCREASE AND THAT THEY WILL BE IN AGREEMENT AT THE OPEC MINISTERIAL MEETING DECEMBER 16. LITTLE INFORMATION IS AVAILABLE SO FAR ON THE PURPOSE OF THE VISIT AND ON THE SUBSTANTIVE DISCUSSIONS YAMANI HELD WITH PRESIDENT PEREZ AND ENERGY MINISTER HERNANDEZ, OTHER THAN THAT YAMANI DELIVERED A LETTER TO PEREZ FROM THE SAUDI ROYAL FAMILY. YAMANI MADE BRIEF COMMENTS ON THE NORTHERN SOUTH DIALOGUE, THE MIDDLE EAST AND THE US ROLE THERE.

THIS WAS YAMANI'S FIRST STRICTLY BILATERAL VISIT TO CARACAS AFTER YEARS OF PLANNING SUCH A TRIP. WHILE HERE HE LAUSHERED EFFUSIVE PRAISE ON VENEZUELA AND PRESIDENT PEREZ. IT APPEARS THAT THE SAUDIS ARE MAKING A PARTICULAR EFFORT TO STRENGTHEN THEIR OFTEN TROUBLED TIES WITH VENEZUELA. IT IS STILL UNCLEAR WHAT THIS MAY MEAN FOR US INTERESTS. END SUMMARY.


2. SUBSTANTIVE INFORMATION ON THE PURPOSE OF HIS VISIT AND ON THE SUBJECTS DISCUSSED WITH PEREZ AND HERNANDEZ HAS BEEN VERY LIMITED AND THEREFORE SEE NO OFFICIAL STATEMENTS. VENEZUELAN OFFICIALS ARE NOT TALKING. YAMANI WAS REPORTED TO HIS VISITING VENEZUELA IN HIS CAPACITY AS PRESIDENT OF OPEC'S MINISTERIAL COMMITTEE ON STRATEGIES AND TO HAVE DELIVERED A PERSONAL LETTER TO PRESIDENT PEREZ FROM THE SAUDI ROYAL FAMILY, ALTHOUGH REPORTS DIFFERED AS TO WHETHER THIS LETTER WAS FROM KING KHALID OR PRINCE FADH.

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Yamani made relatively few public comments during his visit, probably in part because of the constant security surrounding him as well as the language barrier. Following a meeting with President Pérez Oct 26, he expressed his appreciation for the opportunity to exchange points of view with Pérez, saying that they were in full agreement, particularly on oil matters. Yamani made a special point of citing Pérez's visit to Saudi Arabia and other Middle Eastern OPEC countries in the spring of 1977 as the event which brought to a successful conclusion the dispute (over price levels) which arose from the December 1976 OPEC meeting. He concluded by saying that the two countries are looking forward enthusiastically to the upcoming OPEC meeting; in order to prove that OPEC continues and will continue to be as strong as ever, Yamani also took at some length to the Associate Director of the English Language Daily Journal 

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REPORTED THAT YAMANI HAD SAID HE HAD DELIVERED A PERSONAL LETTER TO PRESIDENT PEREZ FROM KING FAHID IN THE US, AND THAT HE WAS REPAYING MINISTER HERNANDEZ'S MANY VISITS TO SAUDI ARABIA. (ALL CONFIDENTIAL)
OTHER REPORTS DESCRIBED THE LETTERS AS BEING FROM PRINCE FAHD. YAMANI ALSO SAID THAT THERE CAN BE NO DOUBT THAT OIL PRICES WILL GO UP IN THE FUTURE, BUT THAT THE REAL QUESTION IS HOW FAST. HE PREFERRED TO SEE A GRADUAL RISE, THE RATE OF WHICH WOULD DEPEND ON VARIOUS SUPPLY AND DEMAND FACTORS, AND SUGGESTED THAT OIL PRICES WOULD PEAK AROUND 1987. YAMANI APPARENTLY AGREED WITH THE VIEW OF SOME IN VENEZUELA THAT OPEC SHOULD BE OVERHauled TO GIVE THE ORGANIZATION GREATER UNITY AND FORCE IN THE FUTURE. THE WAS ALSO REPORTED TO BE EMPHASIC IN SAYING THAT THE POLITICAL SITUATION IN THE MIDDLE EAST MIGHT THE AMERICAN ATTITUDE TOWARD PRICE AND PRODUCTION, BUT ADDED THAT THERE WOULD BE DEFINITELY NOT BE ANOTHER OIL EMBARGO AGAINST THE INDUSTRIALIZED COUNTRIES.

4. ON HIS DEPARTURE THE EVENING OF OCTOBER 29, YAMANI ALSO GAVE AN INTERVIEW TO AN ENGLISH SPEAKING REPORTER OF THE GOV'T TELEVISION CHANNEL. ASKED ABOUT HIS TALKS WITH PRESIDENT PÉREZ ON OIL PRICES, YAMANI REPLIED THAT WHILE HE TRIED TO LEAVE DISCUSSIONS OF THIS QUESTION TO THE OPEC MEETINGS, HE COULD SAY THAT SAUDI ARABIA AND VENEZUELA NOW HOLD ALMOST THE SAME POSITION ON THIS QUESTION, AND THEREFORE THEY WILL TAKE THE SAME POSITION IN ABU DHABI, WITH RESPECT TO THE USE OF THE DOLLAR IN OPEC PRICING, HE EXPLAINED THAT SAUDI ARABIA HAS LARGE INVESTMENT IN THE DOLLAR, WHICH WOULD FALL EVEN FURTHER IF OPEC LEFT IT NOW, AND THEREFORE HE BELIEVED OPEC WOULD CONTINUE TO USE DOLLARS IN PRICING. COMMENTING ON THE ISRAELI-EGYPTIAN PEACE TALKS, HE SAID THE ARAB POSITION IS THAT THERE WILL BE NO PEACE IN THE AREA UNLESS THE RIGHTS OF THE PALESTINIAN PEOPLE ARE OBSERVED AND THE OCCUPIED TERRITORIES RETURNED. ANY MOVES IN THIS DIRECTION WOULD BE WELCOME, HE SAID, WHILE ANYTHING SHORT OF THIS WAS NOT ENOUGH. YAMANI ALSO SPOKE HIGHLY OF PRESIDENT CARTER'S HONESTY AND DEDICATION IN IMPROVING RELATIONS BETWEEN THE ARABS AND THE US, AND, IN THE AREA OF OIL, IN MOVING FROM CONFRONTATION TO A POSITION OF COOPERATION. ASKED ABOUT THE NORTH-SOUTH DIALOGUE, HE SAID THERE IS NO ALTERNATIVE TO THIS DIALOGUE, AND EXPRESSED THE VIEW THAT IT WOULD SUCCEED IN THE FUTURE. YAMANI WAS PARTICULARLY RESPONSIVE TO A NUMBER OF QUESTIONS ABOUT SAUDI-VENEZUELAN RELATIONS, REFERRING TO THE MANY SIMILARITIES BETWEEN THE TWO PEOPLE, WHO ARE OF THE SAME BLOOD BECAUSE OF THE ARAB INFLUENCE IN SPAIN. HE ALSO COMMENTED ON THE MANY MUTUAL INTERESTS AND CLOSE COOPERATION BETWEEN THE TWO COUNTRIES, WHICH, ALBEIT IN REPLY TO A LEADING QUESTION, HE SAID HAD BEEN IMPROVED BY THE WORK OF PRESIDENT PÉREZ AND MINISTER HERNÁNDEZ. THIS, HE ADDED, WAS IMPORTANT NOT ONLY FOR THE TWO COUNTRIES BUT ALSO FOR OPEC AND FOR THE INTERNATIONAL COMMUNITY. FINALLY, NOTING VENEZUELA'S WEALTH, ITS DEMOCRACY, AND ITS GEOGRAPHICAL LOCATION, YAMANI SAID THESE MAKE IT PARTICULARLY IMPORTANT TO THE OTHER DEVELOPING COUNTRIES.
B. ACCOMPANYING YAMANI DURING HIS VISIT, MINISTER HERNANDEZ WAS ALSO ASKED ABOUT THE PURPOSE OF THE VISIT AND OIL PRICES. AS IS HIS CUSTOM HOWEVER, HE ALSO REFUSED TO BE PINNED DOWN REGARDING THE VISIT, HE SAID ONLY THAT THE TALKS HAD COVERED MANY ISSUES AND THAT THE TWO COUNTRIES WERE IN GENERAL AGREEMENT. AS TO VENEZUELA'S POSITION ON OIL PRICES FOR THE DECEMBER OPEC MEETING, HERNANDEZ REFUSED TO COMMENT SAYING THAT TO DO SO WOULD REDUCE OPEC'S FLEXIBILITY IN REACHING A FINAL DECISION. EARLY IN THE VISIT, HOWEVER, HERNANDEZ WAS QUOTED AS SAYING THAT THERE WERE THREE DISTINCT POSITIONS ON PRICES WITHIN OPEC: THE CONSERVATIVE POSITION WHICH HOLDS THAT PRICES SHOULD NOT INCREASE OVER 5 PERCENT, THE MODERATE POSITION FAVORING AN 8 TO 12 PERCENT INCREASE, AND THE RADICAL VIEW WHICH LOOKS TO AN INCREASE OF AT LEAST 15 PERCENT. (IT SHOULD BE NOTED THAT THE GOV CONSISTENTLY DESCRIBES ITSELF AS A MODERATE ON OIL PRICING.)
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RUQYMRS/AMBASSASY ALGIERS 218
RUQYMOD/AMBASSASY DOHA 78
RUQOHR/AMBASSASY TEHRAN 364
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RUKOBT/AMBASSASY JAKARTA 308
RUFPLC/AMBASSASY LEBERVILLE 96
RUESCI/AMBASSASY QUITO 2373
RUQOMGU/AMBASSASY AMIARA 62
RUQOMAT/AMBASSASY ATHENS 105
RUQDFEQ/AMBASSASY BERLIN 82
RUQBOFL/AMBASSASY BONN 316
RUQYPRS/AMBASSASY BRUSSELS 215
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RUQFDDB/AMBASSASY DUBLIN 27
RUQFTC/AMBASSASY LONDON 1036
RUQFEG/AMBASSASY LUXEMBOURG 28
RUQFMD/AMBASSASY MADRID 709
RUQDNSQ/AMBASSASY OSLO 51
RUQHCT/AMBASSASY OTTAWA 297
RUQFNP5/AMBASSASY PARIS 968
RUQHRO/AMBASSASY ROME 493
RUQKPMO/AMBASSASY STOCKHOLM 99
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BRUSSELS ALSO FOR USEC

PARIS ALSO FOR USOFCL

A. SPECULATION ON THE PURPOSE OF THE VISIT NATURALLY
CONFIDENTIAL ON OIL PRICES. ON REPORT EARLY IN THE VISIT
CLAIMED THAT SAUDI ARABIA HAD PROPOSED A 5 TO 10 PERCENT

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INCREASE IN DECEMBER, PLUS SUCCESSIVE INCREASES IN 1973, THERE HAS BEEN NO FURTHER COMMENT ON THIS OTHER THAN A CLAIM BY A LEFTIST UNIVERSITY ECONOMIST THAT SAUDI ARABIA HAD ALREADY AGREED WITH THE U.S. ON A 10 PERCENT INCREASE, BUT THAT THIS WAS NOT ENOUGH AND THAT VENEZUELA SHOULD INSIST ON A 30 PERCENT Hike. WITH LITTLE MORE TO REPORT, MINISTER YAMANI’S VISIT WAS ALL BUT IGNORED IN THE WEEKEND PRESS WITH THE EXCEPTION OF TWO LONG ARTICLES BY THE DAILY JOURNAL. EDITORIAL COMMENT ON THE VISIT SO FAR HAS BEEN LARGELY LIMITED TO THE DAILY JOURNAL, WHICH ARGUES THAT THE VISIT WAS EVIDENCE OF SAUDI INTEREST IN MOVING CLOSER TO VENEZUELA ON OIL MATTERS, NOT ONLY ON PRICING BUT ALSO POSSIBLY TOWARD THE LONG-HELD VENEZUELAN POSITION FAVORING PRODUCTION CONTROLS WITHIN OPEC.

7. COMMENT. MINISTER HERNANDEZ HAS MADE REPEATED VISITS TO SAUDI ARABIA, MOST RECENTLY IN LATE SEPTEMBER, BUT IN SPITE OF A LONGSTANDING INVITATION FROM HERNANDEZ, THIS WAS YAMANI’S FIRST VISIT HERE OTHER THAN TO ATTEND OPEC MEETINGS, IN 1970 AND 1977. THUS THE TIMING, AND THE LENGTH OF YAMANI’S STAY, ARE SIGNIFICANT. (WE ALSO UNDERSTAND THAT KUWAITI OIL MINISTER ALI S. ALIYA, WITH WHOM HERNANDEZ ALSO MET LAST MONTH, IS EXPECTED HERE NOVEMBER 14.)

8. WE UNDERSTAND FROM ONE SOURCE THE SOLE PURPOSE OF YAMANI’S VISIT WAS TO DELIVER THE LETTER TO PRESIDENT PEREZ FROM THE ROYAL FAMILY, AND SINCE YAMANI HAD COME FROM THE U.S., THIS WOULD LEND CREDENCE TO THE POSSIBILITY THAT THE LETTER WAS FROM KING ABDALILLAH RATHER THAN PRINCE FAHAD. AS PEREZ IS OFTEN KNOWN TO SEND PERSONAL LETTERS TO OTHER OPEC HEADS OF STATE, WE CAN SPECULATE THAT THE SAUDI LETTER MAY HAVE BEEN DELIVERED BY HERNANDEZ IN SEPTEMBER. IN THIS REGARD, WE WOULD APPRECIATE ANY INFORMATION AVAILABLE TO JIDDA ON HERNANDEZ VISIT THERE.

9. WE HAVE EVEN LESS INFORMATION AT THIS POINT ON THE CONTENTS OF THE LETTER OR THE SUBSTANCE OF TALKS. WE BELIEVE THAT YAMANI’S ONLY SUBSTANTIVE MEETINGS WERE THOSE WITH PEREZ AND HERNANDEZ, THE ONLY TWO GOV OFFICIALS WITH A MAJOR ROLE IN FORMULATING THE GOV’S POSITION ON OPEC OIL PRICING. IT IS UNDERSTOOD THAT YAMANI DID NOT REPEAT NOT DISCUSS THE QUESTION OF OIL PRICES DURING HIS TWO MEETING WITH THE DIRECTORS OF PETROLEOS DE VENEZUELA, EVEN THOUGH MOST OF THE NATIONAL OIL HOLDING COMPANY’S MARKETING STAFF WERE PRESENT AT THE MEETING. PETROLEOS PLAYS ALMOST NO PART IN OPEC PRICING POLICY; ITS PRICING RESPONSIBILITIES ARE LIMITED TO THE PRICING AND MARKETING OF VENEZUELAN OIL AFTER OPEC LEVELS ARE SET.
10. THE GOV HAS NOT SPECIFIED ITS POSITION ON HOW MUCH PRICES SHOULD INCREASE, POSSIBLY REMEMBRING PEREZ' ILL-FATED PREDICTION LAST YEAR AT THIS TIME THAT PRICES WOULD BE INCREASED BY 8 PERCENT AT THE CARACAS OPEC MEETING. AS WE NOTED IN REF A, HOWEVER, VENEZUELA IS
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INFO RUQMRW/AMBASSAD KUWAIT 274
RUQMTI/AMBASSAD TRIPOLI 236
RUQTRI/AMBASSAD ADB ABI 102
RUFERS/AMBASSAD ALGIERS 216
RUQMOD/AMBASSAD DOHA 79
RUQHEMR/AMBASSAD TEHRAN 365
RUFALS/AMBASSAD LAGOS 305
RUKOB/AMBASSAD JAKARTA 329
RUFHLC/AMBASSAD LIEBERVILLE 57
RUKSG/AMBASSAD QUITO 2334
RUQMGU/AMBASSAD ANKARA 61
RUQMAT/AMBASSAD ATHENS 126
RUDZBG/AMBASSAD BERN 83
RUHFOL/AMBASSAD BONN 317
RUFHBR/AMBASSAD BRUSSELS 216
RUDXPCO/AMBASSAD COPENHAGEN 65
RUFHDB/AMBASSAD DUBLIN 29
RUDTC/AMBASSAD LONDON 1931
RUFHSC/AMBASSAD LUXEMBOURG 29
RUFHM/AMBASSAD MADRID 799
RUDKSNQ/AMBASSAD OSLO 52
RUFEMT/AMBASSAD OTTAWA 298
RUFVPS/AMBASSAD PARIS 969
RUFHRO/AMBASSAD ROME 496
RUDKFMQ/AMBASSAD STOCKHOLM 180
RUDKGPQ/AMBASSAD THE HAGUE 275
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RUFHVA/AMBASSAD VIENNA 456
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CONFIDENTIAL SECTION 4 OF 4 CARACAS 18288
BRUSSELS ALSO FOR USEC
PARIS ALSO FOR USOECD

ALMOST CERTAINLY LOOKING FOR AN INCREASE WELL IN EXCESS
OF 5 PERCENT, AND WITH NATIONAL ELECTIONS TAKING PLACE
ON DECEMBER 3, IT SEEMS HIGHLY UNLIKELY THAT GOV LEADERS
COULD AGREE, EVEN IN STRICTEST CONFIDENCE, TO AN INCREASE IN THE NEIGHBORHOOD OF 5 PERCENT PRIOR TO THESE ELECTIONS. THE SAUDI CHARGE TOLD US A FEW WEEKS AGO THAT HIS COUNTRY WAS FIRM ON LIMITING THE PRICE INCREASE IN DECEMBER TO 5 PERCENT, BUT FOLLOWING YAMANI'S VISIT HE TOLD US THERE HAD BEEN A TOTAL MEETING OF THE MINDS ON ALL ISSUES. GIVEN OUR ASSESSMENT OF THE ORIGINAL GOV. POSITION, THIS REMARK, IF ACCURATE, CAN ONLY MEAN THAT ONE OR THE OTHER PARTIES HAVE MOVED FROM THEIR ORIGINAL POSITION. ONE OBVIOUS POSSIBILITY FOR A COMPROMISE WOULD BE A 5 TO 7 PERCENT INCREASE IN DECEMBER, PLUS AN AGREEMENT ON ONE OR MORE INCREMENTAL INCREASES LATER IN 1979; IF AS DESCRIBED IN THE PRESS REPORT CITED ABOVE, YAMANI MAY ALSO HAVE USED THE VISIT TO COORDINATE WITH HERNANDEZ ON THE FINAL REPORT OF THE OPEC MINISTERIAL COMMITTEE ON STRATEGIES, WHICH WE UNDERSTAND IS TO MEET IN NOVEMBER TO PREPARE A FINAL REPORT TO THE DECEMBER OPEC MINISTERIAL MEETING.

11. FINALLY, THE VISIT ALMOST CERTAINLY REPRESENTED A SAUDI EFFORT TO STRENGTHEN OFTEN TROUBLED RELATIONS WITH VENEZUELA AND TO REPAY THE PAST VISITS OF HERNANDEZ AND PEREZ TO SAUDI ARABIA. YAMANI SEEMED TO GO OUT OF HIS WAY TO LAUD PRESIDENT PEREZ' ROLE IN SETTLING THE 1977 PRICE SPLIT AND HIS STARFT HERE WAS WELL IN EXCESS OF THE TIME NEEDED FOR HIS SUBSTANTIVE DISCUSSIONS. ONE ISSUE, WHICH HAS ANGERED PRESIDENT PEREZ AND REFLECTED THE TROUBLING RELATION IS THE FACT THAT SAUDI ARABIA HAS NOT HAD AN AMBASSADOR HERE FOR A NUMBER OF YEARS AND THERE HAVE BEEN REPEATED RUMORS THAT THEIR CHARGE WAS ABOUT TO BE NAMED AMBASSADOR.

12. IT IS UNCLEAR WHY THE SAUDIS PICKED THIS MOMENT FOR THE VISIT. PERHAPS IT WAS IN PART A GESTURE TO PEREZ AS HE NEARS THE END OF HIS TEN IN OFFICE AND YET, ON THE VENEZUELAN SIDE THERE WAS LITTLE EFFORT TO EXPLOIT THE VISIT FOR DOMESTIC POLITICAL REASONS. IN FACT IT WAS GIVEN RATHER LOW KEY MEDIA TREATMENT. PEREZ DID ARRANGE FOR YAMANI TO APPEAR ON A LOCAL TELEVISION TALK SHOW WITH GROUND RULES THAT HE STAY AWAY FROM MIDDLE EAST POLITICS AND CONCENTRATE ON OIL.


14. COMMENT FROM ADDRESSEE POSTS IN PERS.
CONFIDENTIAL JIDDA 7820
BRUSSELS ALSO FOR USEEC, PARIS ALSO FOR USOECD

H.O. 11652: GDS
TAGS: ENRG OPEC SA
SUBJECT: OPEC PRICE DELIBERATIONS

HF: STATE 266410

1. SUMMARY. EMBASSY CONCURS WITH REPTEL PROPOSAL NOT TO APPROACH HIGHEST LEVELS OF SAQ UNTIL AFTER BLUMENTHAL VISIT. HOWEVER, FOR A VARIETY OF INTERNAL AND EXTERNAL POLITICAL AND ECONOMIC REASONS, THE SAUDIS WILL PROBABLY BE MUCH MORE RECEPTIVE TO COUNSELS OF PRICE MODERATION THAT TO A SERIES OF ARGUMENTS DESIGNED TO PERPETUATE A PRICE FREEZE. END SUMMARY.

1. THE EMBASSY CONCURS THAT NO APPROACH SHOULD BE MADE TO KEY SAUDI OFFICIALS UNTIL AFTER THE VISIT BY SECRETARY BLUMENTHAL. ONLY IN LIGHT OF THE RESULTS OF THIS VISIT CAN A PRESENTATION BE DESIGNED FOR MAXIMUM IMPACT ON SAUDI THINKING.

2. IT IS OUR IMPRESSION THAT THE SAQ HAS NOT YET FIRMLY FIXED ON A POLICY POSITION REGARDING OPEC OIL PRICING FOR THE DECEMBER OPEC CONFERENCE, AND THEREFORE, WILL BE OPEN TO ANY POINTS WE MIGHT MAKE. HOWEVER, BECAUSE OF THE CONSIDERATIONS DETAILED BELOW, THE EMBASSY FEELS THAT THE SAUDIS WILL RESPOND MORE FAVORABLY IF THE UNITED STATES URGES MODERATION RATHER THAN ADVOCATING NO INCREASE AT ALL.

3. IN RECENT PUBLIC AND PRIVATE STATEMENTS SENIOR SAUDI OFFICIALS HAVE INDICATED THAT AT LEAST SOME INCREASE IS BEING SERIOUSLY CONSIDERED. THESE STATEMENTS IN LONDON, DEPUTY PETROLEUM MINISTER AL-TURKI’S STATEMENT LAST WEEK TO USLEG/Riyadh OFFICERS, AND PRESS REPORTS ON YAMINI’S VISIT TO CARACAS WHERE HE STRESSED THAT OPEC UNITY AND STRENGTH WILL BE DEMONSTRATED AT THE ABU DHABI MEETING.

4. OPEC UNITY HAS ALWAYS BEEN A MAJOR SAUDI OBJECTIVE. THE PRICE SPLIT WHICH OCCURRED IN THE FIRST HALF OF 1977 WAS AS TRAUMATIC FOR THE SAUDIS AS IT WAS FOR THEIR OPEC PARTNERS, AND ITS RESOLUTION DID NOT RESULT IN A CLEAR-CUT VICTORY WITHIN OPEC FOR SAUDI ARABIA. WE BELIEVE IT IS UNLIKELY THAT THE
Saudis would again jeopardize both their prestige and their leadership role within OPEC for a price freeze at this time.

5. The Saudis are well aware of both the deteriorating balance of payments position of their OPEC partners, and the problems that in decline of the dollar has created for those OPEC states whose major trading partners' currencies have appreciated as result. They have probably also calculated that they can expect far less help from Iran in holding the line on prices now that the Shah has been forced to consider cutbacks in major defense and energy-related purchases to obtain funds needed to meet domestic demands.

6. Another factor which will influence the Saudis in favor of a price increase is their own current budgetary problem. The SAG has recently drawn on foreign reserves to meet budgeted expenditures as well as reducing by flat domestic project expenditures by thirty percent. The SAG appears reluctant to continue spending our of reserves. With the present world oil surplus, the alternative of increasing oil sales to make up this budgetary shortfall could only be accomplished at the expense of other OPEC members. Hence a price increase on present volume levels appears to be preferable.

7. There are also politically valid reasons for the U.S. to counsel price moderation. Responses from other posts to repeal indicate that we run the risk of isolating ourselves from our OECD partners by resolutely insisting on a price freeze. Furthermore, if the Saudis feel that the United States is being unrealistic on the price issue and unresponsive to their concern for OPEC unity, our ability to conduct a meaningful dialogue on a wide range of key issues ranging from Middle East peace negotiations to encouragement of expansion of long-range crude oil productive capacity is likely to be weakened.

8. Finally, we share Kuwait's concern that OPEC might opt for a system of smaller periodic price increases in the future. Yamani has already alluded to this possibility, and if the Saudis "hold the line" once more at our request, the quid pro quo demanded by the other OPEC members may be just such a system. This,
WHETHER TIED TO SOME INDEX OF INFLATIONARY TRENDS, OR SIMPLY A FIXED PERCENTAGE INCREASE ON A QUARTERLY OR SEMI-ANNUAL BASIS WOULD BUILD ANOTHER RATCHET EFFECT INTO THE WORLD ECONOMIC SYSTEM.

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FOR AMBASSADY SULLIVAN FROM SECRETARY BLUMENTHAL

EO: 11632: GDS
TAGS: OVIP (BLUMENTHAL W MICHAEL)
SUBJ: SECRETARY BLUMENTHAL'S VISIT

REF: A) TEHRAN 11292 B) TEHRAN 11823

1. WHAT IS YOUR CURRENT VIEW TO MY BRINGING ENTIRE
DELEGATION INCLUDING SECRET SERVICE WITH ME TO
TEHRAN IN LIGHT OF YOUR ASSESSMENT OF CURRENT SITUATION?
IF YOU BELIEVE A SMALLER DELEGATION IS PREFERABLE, I
WOULD BRING THE FOLLOWING PERSONS: ASSISTANT SEKJETARY
C FRED BERGSTEN, MY EXECUTIVE ASSISTANT RICHARD FISHER,
PLUS THE CDELEX (SEN LUGAR, CONGRESSMEN CAVANAUGH, HYDE, SSSION).)

2. TRAVELING PRESS MAY ELECT TO HAVE ONE REPRESENTATIVE FROM
AMONG THEM ACCOMPANY ME (NAME TO BE PROVIDED). WOULD EMBASSY
BE ABLE TO ASSIST "PRESS PERSON". TRAVELING PRESS PERSON WOULD
NOT REPEAT NOT ACCOMPANY ME TO MEETINGS. D
3. ONCE I HAVE YOUR RESPONSE, WE WILL PROVIDE ASAP NEW ETA.
ANTICIPATE APPOINTMENT TIMES WILL BE AFFECTED.

WEST

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CONFIDENTIAL
1. AL-JAZIRA DAILY OF RIYADH FRONT-PAGE ON SAT. JANG, 1973, THICKER THAN USUAL HEADING TITLED "THE KINGDOM ANNOUNCES ITS SUPPORT FOR THE REGIME OF THE SHAH OF IRAN."

2. AL-JAZIRA CLAims THAT IT HAD, FOR THE SECOND TIME IN LESS THAN A WEEK, ACQUIRED AN EXCLUSIVE INTERVIEW WITH THE CROWN PRINCE EMBODYING AN IMPORTANT POLITICAL STATEMENT.

3. THE EXCLUSIVE INTERVIEW WITH THE CROWN PRINCE ELICITS THE FOLLOWING RESPONSES TO QUESTIONS POSED BY THE NEWSPAPER CORRESPONDENT:
   A. "WE SUPPORT EVERY REGIME THAT ENJOYS LEGITIMACY IN ITS COUNTRY AND THE REGIME OF THE SHAH RESTS ON SUCH LEGITIMACY."
   B. "THE BLOODY EVENTS IN IRAN SERVE NO INTEREST EXCEPT THAT OF THE ENEMY. AND WE HOPE THAT THE IRANIANS WOULD PUT AN END TO THOSE EVENTS BY THEMSELVES."
   C. THE CONTINUATION OF WHAT IS HAPPENING IN IRAN WOULD THREATEN THE FUTURE OF POLITICAL STABILITY IN BOTH THE GULF AND THE MIDDLE EAST REGIONS."
   D. THE CROWN PRINCE BY WAY OF ELABORATION MADE THE FOLLOWING ADDITIONAL POINT: "THE PRESENT SITUATION IN IRAN DOES NOT SERVE THE INTERESTS OF THE IRANIANS THEMSELVES NOR INDEED THE INTERESTS OF ISLAM OF THE MUSLIMS." BASED ON THE FACT THAT THE SHAH, AS WE SAID, ENJOYS THE LEGITIMATE STATUS, THERE IS NO DOUBT THAT WE SUPPORT HIS STATUS AND HIS PRESENCE."
5. IN A FRONT PAGE EDITORIAL OF THE SAME DAY, AL-JAZIRA COMMENTED ON CROWN PRINCE FAHDI'S CALL TO MAINTAIN IN HARSH ASSESSMENTS MENTIONED ABOVE THE KINGDOM'S CONSTANT POLICY OF DISTINGUISHING BETWEEN WHAT IS ESSENTIALLY AN INTERNAL MATTER FOR ANY COUNTRY AND WHAT GOES BEYOND THE BORDERS OF THEIR COUNTRY. THE NEWSPAPER EMPHASIZED THE KINGDOM'S CONCERN TO MAINTAIN IN EVERY CIRCUMSTANCES GOOD RELATIONS NOT ONLY WITH REGIMES THAT REST ON LEGITIMACY BUT ALSO WITH THE PEOPLES OF THOSE REGIMES.

6. AL-JAZIRA MAINTAINED THAT AS A PERSON ON THE KINGDOM'S BELIEF THAT GROWTH AND DEVELOPMENT WOULD NOT COME ABOUT NOR BE THE LOT OF ANY PEOPLE EXCEPT IN CIRCUMSTANCES OF SECURITY, PEACE AND STABILITY, CROWN PRINCE FAHDI APPEALED TO THE IRANIANS TO DEAL WITH THE SITUATION THEMSELVES AND DO AWAY WITH THE DIFFERENCE WHICH HAVE LED UNFORTUNATELY TO SUFFERING AND Slaughter FELT BY EVERY IRANIAN.

7. AL-JAZIRA EMPHASIZED THAT THE FORCE OF ARMS IS NOT ALWAYS, NOR INDEED SHOULD IT BE AT ANY TIME, THE METHOD FOR PEOPLES AND LEADERS TO SOLVE THEIR INTERNAL PROBLEMS. THE NEWSPAPER SINGLED OUT AS AN EXAMPLE FOR EXCELLENCE THE SAD EXPERIENCE OF LEBANON WHERE TENS OF THOUSANDS OF LEBANESE WERE KILLED AND HUNDREDS OF THOUSANDS WERE WOUNDED OR DISPERSED, NOT TO SPEAK OF THE RUIN, DESTRUCTION, AND ECONOMIC COLLAPSE WITH WHICH THE LEBANESE PEOPLE ALONE HAVE BEEN BURNED.

8. IN CONCLUSION, AL-JAZIRA OPINES THAT IN VIEW OF IRAN'S DISTINCTIVE POSITION REGIONALLY AND INTERNATIONALLY FOR THE PURPOSE OF POLITICAL, ECONOMIC OR MILITARY STRATEGY PLANNING, PEACE AND SECURITY IN IRAN ARE VITAL FOR THE SECURITY AND TRANQUILITY OF THE GULF AND MIDDLE EAST AREAS. "NO ONE SAVED THE IRANIAN PEOPLE, THEIR EMPEROR AND THEIR GOVERNMENT CAN DO ANYTHING TO SECURE SECURITY PEACE AND STABILITY FOR IRAN AND ITS PEOPLE AND CONSEQUENTLY FOR THE ASPECTS OF THE SITUATION IN THE GULF AND THE WHOLE MIDDLE EAST."

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1. YOU SHOULD BE AWARE THAT AT 0800 WASHINGTON TIME, JANUARY 10, WE WILL POST FOLLOWING JOINT ANNOUNCEMENT BY THE UNITED STATES AND THE GOVERNMENT OF SAUDI ARABIA OF THE VISIT OF 12 F-15 AIRCRAFT TO THE KINGDOM MID-JANUARY. ADDRESSEES MAY INFORM HOST GOVERNMENTS AT THEIR DISCRETION.

2. TEXT OF JOINT STATEMENT:


3. CONTINGENCY PRESS GUIDANCE WILL BE PROVIDED SEPTELD VANCE

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RUFNPTS/AMBASSY PARIS 4659
RUHBS/AMBASSY BRUSSELS 6369
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EO 12065: XDS-4, 1/16/99 (MORRIS, ROBERT J). OR-E
TAGS: ERRG, SA, UK
SUBJ: SAUDI ARABIAN OIL PRODUCTION

1. (S - ENTIRE TEXT) SENIOR OFFICIALS OF THE SHELL
GROUP (PROTECT SOURCE AND INFORMATION) WERE IN SAUDI
ARABIA THE PAST WEEKEND TO SECURE AN ADDITIONAL

ALLOCATION OF CRUDE OIL. AUTHORITATIVE SOURCES IN
SHELL REPORT THAT PETROLEUM MINISTER YAMANI RESPONDED
THAT TOTAL SAUDI OIL PRODUCTION FOR THE FIRST QUARTER
OF 1979 WOULD BE HELD TO A DAILY AVERAGE MAXIMUM OF
4.5 MILLION B/D. SHELL NOTES THE CONTRAST BETWEEN THIS
STATEMENT AND REPORTS CURRENT IN PII AND ELSEWHERE THAT
SAUDI PRODUCTION IS LIKELY TO CONTINUE AT OVER 10
MILLION B/D AS LONG AS IRANIAN PRODUCTION IS DOWN.

2. PRESUMABLY THE SAUDIS WISH TO RESERVE THEIR OPTIONS
AS LONG AS POSSIBLE AND IN ANY EVENT WOULD NOT WISH TO
BE CASUAL ABOUT REVEALING THEIR INTENTIONS. POSSIBLY
TOO THE SAUDIS MAY WISH TO FAVOR THE ARAMCO PARTNERS
WITH ANY ADDED SUPPLIES, BUT IF YAMANI'S STATEMENT TO
SHELL REFLECTS A FIRM INTENTION, THEN SUBSTANTIAL
PRODUCTION CUTS WILL SOON BE FORTHCOMING.

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SECRET
1. (S -ENTIRE TEXT) A SENIOR LONDON-BASED OFFICIAL IN ONE
OF THE ARAMCO COMPANIES (PROTECT SOURCE AND INFORMATION)
HAS PRIVATELY EXPRESSED AMAZEMENT THAT SAUDI ARABIA IS
MAKING ALL OF ITS CURRENT EXCESS CRUDE OIL AVAILABLE TO
ARAMCO. WHILE DELIGHTED AT THIS TURN OF EVENTS, THE OFFI-
CIAL SAID HE COULD NOT UNDERSTAND THE SAUDI MOTIVATION.
HE QUESTIONED THE SAUDIS' JUDGEMENT IN TURNING THEIR
BACKS ON OTHER CUSTOMERS IN SUCH TIMES OF NEED.

2. IN CONTRAST TO THE SHELL IMPRESSION RELATED IN REF
(A), THE OFFICIAL, RECENTLY RETURNED FROM SAUDI ARABIA,
DOUBTED WHETHER THE SAUDIS WOULD BE RIGHT ON A QUARTERLY
BASES ABOUT THE 8.5 MILLION B/D ANNUAL AVERAGE OUTPUT
TARGET, AT LEAST AT THIS STAGE. BUT HE DID REITERATE
Something which no doubt Embassy Jidda and Washington agencies fear frequently: The Saudis are most uncomfortable about producing at levels approaching and often exceeding 10 million b/d.

3. It would appear that Saudi Arabia's decision to make several million b/d of extra crude oil available to ARAMCO has something to do with softening the impact of the Iranian shortfall on the United States. Thus, even the subtlest Saudi disenchantment with the United States would seem to have a potential for marked changes in U.S. oil supply.

WEMSTER
1FT
#1401

SECRET
E.O. 12065: RDS-A 5/2/99 (BINNS, J.R.) OR-P
TAGS: PEPR SA UK
SUBJECT: ACTIVITIES OF SALIM AZZAM

1. (C - ENTIRE TEXT) SALIM AZZAM, SECRETARY GENERAL OF THE ISLAMIC COUNCIL OF EUROPE, HAS BEGUN TO BE VERY BUSY IN LONDON. HE HAS HAILED THE LIBERATION OF IRAN, EXCORIATED THE EGYPT/ISRAELI TREATY, CALLED FOR THE OVERTHROW OF PRESIDENT SADAT, WORKED TO THE PRESS ABOUT COMMUNIST PERSECUTION OF THE AFGHANS, AND ON APRIL 26, ANNOUNCED HE HAD SET UP A COMMISSION TO IDENTIFY AND SOLVE THE PROBLEMS OF 225 MILLION MOSLEMS LIVING IN MINORITY COMMUNITIES. NOW, WE ARE TOLD BY OUR EGYPTIAN COLLEAGUES, HE IS ORGANIZING MEETINGS IN LONDON ON MAY 23 AND 27 TO DISCUSS "LIBERATION OF THE ISLAMIC WORLD." SENIOR RELIGIOUS FIGURES FROM IRAN AND SAUDI ARABIA WILL ADDRESS THE CONFERENCES, WHICH ARE APPARENTLY DESIGNED TO EMBARRASS EGYPT YET AGAIN IN THE WAKE OF THE ISLAMIC CONFERENCE IN FEZ.

2. AZZAM CONTINUES TO BE ACCREDITED TO HMG AS A MINISTER OF THE SAUDI EMBASSY (FOR PUBLIC AFFAIRS). HE IS, HOWEVER, AN EGYPTIAN BY BIRTH AND IS RELATED TO AZZAM PASCHA. WE ARE TOLD HIS RELIGIOUS VIEWS ARE REMARKABLY CONSERVATIVE (HE MAY BE AN IKHWAH MEMBER). HIS SISTER MARRIED INTO THE SAUDI ROYAL FAMILY.

3. SINCE THE ACTIVITIES LISTED ABOVE SEEMED UNUSUAL TO SAY THE LEAST, FOR A SAUDI DIPLOMAT, EMBOFF RAISED AZZAM'S DUAL MANDATE WITH THE FCO IN AN INFORMAL CHAT. THE BRITISH, EMBOFF WAS TOLD, HAD COME TO THE SAME CONCLUSION. SINCE THE PRESENT SAUDI CHARGE IS NOT A FORCEFUL CHARACTER, THE FCO HAS DECIDED TO APPROACH THE SAUDIS IN JIDDA. IT MAY BE, AS THE FCO MIDDLE EAST DEPARTMENT SUSPECTS, THAT THE SAG IS SIMPLY NOT AWARE OF THE EXTENT OF THEIR MINISTER'S EFFORTS -- HIS WARM WELCOME FOR THE NEW "IRANIAN REPUBLIC" SEEMS UNLIKELY TO HAVE BEEN INITIATED IN RIYADH.

BREWSTER
BT
#8778
INCOMING

PERSONNEL DATA

ESA881BRA855
PP KUGMRH
DE RUEHC #6178 1251144
ENY CCCCC ZZH
P 083141Z MAY 79
RM SECSTATE WASHDC
CONF ALL NEAR EASTERN AND SOUTH ASIAN DIPLOMATIC POSTS PRIORITY

CONFIDENTIAL STATE 116178

FOLLOWING REPEAT JIDDA 3430 ACTION SECSTATE INFO ANKARA
CONAKRY DAKAR JAKARTA KUALA LUMPUR MOGADISCU MAY 2

QUOTE CONFIDENTIAL JIDDA 3430

DEPT PASS ALL NEAR EASTERN & SOUTH ASIAN POSTS

E.O. 12065: XDS-1 5/2/89 (DANIELS M. GORDON) OR-M
TAGS: PEPF, PORE, SA, EG
SUBJECT: (U) SAUDI ARABIA AND THE ISLAMIC CONFERENCE

REF: JIDDA 3297

1. (C - ENTIRE TEXT).

2. DURING MAY 1 MEETING, EMBASSY POLITICAL OFFICER DISCUSSED FEZ ISLAMIC CONFERENCE WITH MFA EASTERN AFFAIRS DIRECTOR AHMAD SIRAJ. SIRAJ SAID THAT SAUDI ARABIA WAS SENDING A STRONG DELEGATION COMPOSED OF FIVE FOREIGN MINISTRY OFFICIALS: FOREIGN MINISTER PROINCE SAUD, DEPUTY FOREIGN MINISTER ABD AL-RAHMAN MANSURI, DIRECTOR OF INTERNATIONAL ORGANIZATION AFFAIRS, SAMIR SHIMABI, DIRECTOR OF INFORMATION AFFAIRS ABBAS GHAZAWI, AND DIRECTOR IF ISLAMIC AFFAIRS SHAKYH AHMAD MUBARAK. BECAUSE OF SHORTAGES IN SPACE IN FEZ, MOROCCANS HAVE ASKED THAT ALL DELEGATIONS BE LIMITED TO FIVE.

3. ON THE QUESTION OF EGYPTIAN MEMBERSHIP, SIRAJ SAID THAT SAUDI ARABIA WAS LEGALLY BOUND TO OBSERVE THE DECISIONS OF THE BAGHDAD CONFERENCE. HE SAID THAT IF EXPLICIT QUESTION OF EXPULSION OF EGYPT EVER COMES TO VOTE, SAUDI ARABIA CANNOT BE EXPECTED TO BREAK WITH ARAB CONSENSUS.
4. SIRAJ ADDED THAT THE BEST WAY TO PREVENT THE
EXPULSION OF EGYPT WAS TO HAVE THE NON-ARAB STATES RESIST
SUCH A MEASURE ON THE BASIS OF DEFENSE OF THE ISLAMIC CON-
FERENCE CHARTER. (COMMENT: THAT CHARTER HAS NO PROVISION
FOR EXPULSION OF ANY MUSLIM STATE FROM THE ISLAMIC CONFE-
RENCE AND SAYS THAT EVERY MUSLIM STATE IS ELIGIBLE TO JOIN
THE CONFERENCE. ON THIS BASIS, IT CAN BE CLAIMED THAT
EGYPT CANNOT BE EXPELLED AS LONG AS IT REMAINS A MUSLIM
STATE."

5. SIRAJ SAID THAT NO ARAB STATE CAN BE EXPECTED TO RAISE
SUCH AN ISSUE, BUT THAT IF ENOUGH NON-ARAB STATES RAISE
SERIOUS OBJECTIONS BASED ON DEFENSE OF THE ISLAMIC CONFE-
RENCE CHARTER, SAUDI ARABIA COULD HELP PREVENT THE EXPULSION
ISSUE FROM COMING TO A VOTE ON THE GROUNDS THAT SUCH A VOTE
WOULD DAMAGE ISLAMIC SOLIDARITY.

6. POLITICAL OFFICER POINTED OUT THAT NON-ARAB STATES
WERE UNLIKELY TO UNDERTAKE SUCH A STEP ON THEIR OWN WITH-
OUT ARAB SUPPORT. AT PREVIOUS ISLAMIC FOREIGN MINISTERS
CONFERENCES THE NON-ARAB STATES HAVE BEEN UNWILLING TO
GET INVOLVED IN ARAB QUESTIONS AND HAVE GENERALLY GONE
ALONG WITH RESOLUTIONS, NO MATTER HOW EXTREME, WHICH THE ARAB
STATES PROPOSED. SIRAJ ADMITTED THE EXISTENCE OF THIS
PROBLEM, BUT SAID THAT IF SUCH STATES AS PAKISTAN, INDONESIA,
MALAYSIA, SENEGAL, OR GUINEA WOULD RAISE ISSUES OF CHARTER
AND PROCEDURE, A COMPROMISE MIGHT BE POSSIBLE. HE
NOTED THAT THERE WAS NO CHANCE OF IRAN'S BEING HELPFUL.

7. COMMENT: AT 1975 DAKA ISLAMIC FOREIGN MINISTERS
CONFERENCE, NON-ARAB NATIONS SAT ON THEIR HAND WHILE PLO
AND ITS ALLIES RAN THROUGH THE MOST EXTREME RESOLUTIONS
ON MIDDLE EAST QUESTIONS AT THAT CONFERENCE ONLY EFFECT-
IVE ACTION BY MODERATES OCCURRED IN HORN OF AFRICA DEBATE,
WHEN SOMALIA, SAUDI ARABIA, SUDAN, AND IRAN FELT THEIR
VITAL INTERESTS WERE AFFECTED. ALTHOUGH IT MAY BE WORTH
A TRY, THE ISSUE OF DEFENSE OF THE ISLAMIC CONFERENCE
CHARTER WILL PROBABLY NOT HAVE SUFFICIENT FORCE TO CREATE EFFECTIVE
RESISTANCE TO ATTEMPTS TO EXPEL EGYPT FROM THE CONFERENCE.
IF THE VITAL INTERESTS OF THE NON-ARAB NATIONS ARE NOT
AFFECTED IT IS UNLIKELY THAT THEY WILL GET INVOLVED
IN WHAT THEY CONSIDER AN INTRA-ARAB DISPUTE.

UNQUOTE VANCE

DANIELS.

#6178
TO: Department of State

INFO: Embassies Ankara, Jakarta, Kuala Lumpur, Lagos, USLO Riyadh, Amconsul Dhahran

E.O. 12605: GDS 5/13/75 (Limbert, John) OR-P

FROM: Embassy Jeddah

DATE: MAY 21, 1979

SUBJECT: Saudi Arabia: Forces of Change

REF: DEPT PASS ALL NEAR EAST & SOUTH ASIAN POSTS

Jeddah 3379 (TODAY)

SUMMARY. Recent government measures taken to enforce Islamic practices in Saudi Arabia have not addressed basic social issues in the kingdom. Actions against the most obvious manifestations of westernization have not been sufficient to resist strong forces of social change. These forces include such phenomena as continued foreign education, corruption in high levels of society and the continuing need for a large foreign presence to operate and maintain an increasingly sophisticated economy. Although the Saudi government may continue taking such superficial measures as banning Muslim children from international schools and banning mixed bathing in Jeddah hotels swimming pools, the government may not be able to resist or control the deeper currents bringing social changes to the kingdom. End summary.

INTRODUCTION

In ref(s) we argued that the phrase "Islamic revival" does not apply to Saudi Arabia where Islam is in no need of revival. This message expands that argument to examine some basic forces in Saudi society which are bringing social changes to the kingdom. The recent actions of the government in enforcing public observance of Saudi Islamic custom appear to us to address only the most superficial manifestations of social change without addressing more basic issues and...
problems created by the rapid economic development of the Kingdom.

Recent measures intended to preserve the Islamic traditions of Saudi Arabia are mostly ineffective attempts to stop a strong and deeper current in the opposite direction. The Saudi government has no coherent policy for dealing with perceived threats to traditional society and remains divided over its social priorities. The government has responded to these threats by a series of temporizing measures which will not deal with the forces for change but which will, it hopes, placate the religious conservatives.

In spite of the government's attempts to impose a Wahhabi version of Islamic orthoery on the Kingdom, there are basic forces at work for social change--forces which the government has been unable to resist.

FOREIGN STUDY

Although the immediate social effects of foreign study are debatable, there is little doubt that prolonged exposure to Western patterns of thought and behavior by large numbers of young Saudis will influence their attitudes toward their society. It is not necessary to be a radical to see room for progress and reform in the Kingdom. Although the government is taking steps to restrict foreign study to graduate students and specialized trainees and to keep undergraduates in the domestic universities, there is no evidence of an overall decrease in the numbers of Saudis studying abroad. Although encouraging students to take their families abroad may help young men resist the grosser temptations of 42nd Street, these students will still be exposed to influence of the less obtrusive Western ways.

There are presently about 10,000 Saudi students in the United States under Ministry of Higher Education sponsorship. In addition there are another estimated 3,000-5,000 students under the sponsorship of such organizations as Saudi Arabian Airlines, the Ministry of Defense, and the Ministry of Inter. Although these numbers are not large in relation to the Saudi population, on completion of their studies members of this group are likely to assume positions of considerable influence in the society. As this group grows in size and influence, it could become a force for change, if not social or political then at least in the fields of operation and management.
CONFIDENTIAL

CONSCRIPTION

Although there is nothing strictly un-Islamic in introducing a military conscription system to Saudi Arabia, the military authorities involved have had to defend themselves against charges of theological innovation (ibtida'), a heresy in orthodox Islam (cf. 78 Jidda A-77). Conscription could mean a social change of considerable magnitude when young Saudis are expected for the first time to render some service in return for government generosity. Although many Saudis welcome conscription as a method of instilling a sense of discipline, duty, and purpose in the young, these sentiments may not be shared by the young people themselves. Although details of the plan have not been released, there could be problems if conscription is seen as favoring one social group at the expense of another.

CORRUPTION

The recent manifestations of concern for public morality, with tougher sentences, including flogging, for morals offenses, have not dealt with the more basic social problem of corruption. Although news of misbehavior of princes and high officials is carefully kept out of the local press, the increasing availability of news from foreign sources has overcome all attempts at censorship. Holes in foreign newspapers arouse curiosity, and intact copies of such papers smuggled from abroad are read eagerly.

In an earlier study (Jidda A-4) we noted that the Saudi royal family was not generally perceived as looting the resources of the country for personal profit at the expense of the ordinary citizen. However, corruption is still a problem with serious political and social consequences. Although the government has announced anti-corruption measures, it remains to be seen how effective these will be. If a perception of official corruption and indifference were to gain currency among large segments of the population, the basis of religious legitimacy upon which the house of Saud rests could be undermined. Although the Saudi family has shown an ability to take strong measures when its power is threatened, it is not certain that the family possesses enough internal discipline to control the acquisitiveness of some of its members.

It appears that the government is still concentrating its efforts on superficial questions of morality while ignoring basic issues. The eventual effects of uncontrolled economic corruption on Saudi society would be much more drastic than the effects of allowing, for example, foreign Muslim children to attend international schools. Saudi Arabia's social stability is based not on any police apparatus or on a population terrorized into indifference, but on a high degree of consensus...
on the nature of the state, on the role of religion, and on the value of preserving Islamic traditions. Corruption and indifference among those leading the society could weaken that consensus and call into question the legitimacy of the position of the ruling family and its allies.

FOREIGN PRESENCE

The Saudis have shown a remarkable ability to resist the adoption of foreign ways despite the large foreign presence in the Kingdom. Possible explanations for this resistance include the physical and social isolation of the foreigners and the Saudi's self confidence that protects him from imitation of the West in the manner of the Iranian gharbzadeh (West-infatuated). Nevertheless, the Saudis will soon face some critical questions concerning resident foreigners. The nature of the foreign presence will change as society's economic activities evolve from building infrastructure projects to operation and maintenance of industrial, petrochemical, social welfare and communications facilities. Most observers believe that in the next 10-15 years the Saudi economy will become more, not less dependent on foreigners. These foreigners will no longer be casual construction laborers, but will be long-term residents of the Kingdom working in strategic sectors of the economy.

None of the recent 'Islamic' measures noted refiel have had any effect on the basic question about what kind of society Saudi Arabia should be in the next 10 to 20 years. If no rational policy for dealing with the foreign presence is adopted, Saudi Arabia may find itself permanently dependent on a group of highly-paid foreign mercenaries to operate its essential services. Some thoughtful Saudis are asking whether they (the Saudis) should become a permanently unproductive class whose main function will be signing checks for foreigners. However, the government's only response so far has been limited to steps such as removing insidious Western influences as "Six Million Dollar Man" from the local television.

CONCLUSION

The Saudi Arabian Government feels that it must maintain a delicate balance between continuing its economic modernization program and protecting the traditional social structure of the Kingdom. It appears that in order to achieve the latter goal the government has taken a series of cosmetic actions aimed at resisting only the most obvious and superficial signs of westernization. The Ministry of Interior, the government body most directly responsible for defending public morality, is involved in only the most peripheral way with the basic issues shaping Saudi society. Unless there
is some radical change of economic and social policy in the next few years, the currents of social change will continue to gather strength. If the government is going to resist or control these currents, it will need to do much more than install darkened glass on girls' school bus windows.

DANIELS
USICA FOR PAO: FROM PGM/PFN:

(Please note: material not for publication)

The following report by Oswald Johnston, headlined:
"U.S. Recalls CIA Officer to Avoid Rift with Saudis, Appeared
In the Los Angeles Times of May 8: (Begin Text)

Washington--The Carter Administration anxious to head off
a damaging public dispute with Saudi Arabia, has quietly
recalled the CIA station chief attached to the U.S. Embassy in
Jidda, U.S. Officials said Monday.

The CIA agent, whose identity officials refused to divulge
HAD BEEN MARKED FOR NORMAL EXPULSION BY THE SAUDI LEADERSHIP, WHICH HAS BEEN ANGERED FOR MORE THAN A MONTH BY REPORTS IN THE U.S. PRESS OF SPLITS IN THE ARAB NATION'S RULING FAMILY.

PARTICULARLY DAMAGING TO U.S.-SAUDI RELATIONS WAS A NEWS REPORT LAST MONTH IN THE WASHINGTON POST QUOTING UNNAMED U.S. OFFICIALS AS EXPRESSING FEAR THAT CROWN PRINCE FAHD, VIEWED BY SOME IN THE CARTER ADMINISTRATION AS THE PRO-AMERICAN "STRONG MAN" OF THE SAUDI MONARCHY MAY BE LOSING HIS GRIP.

THE REPORT, DISAVOWED BY OTHER AMERICAN OFFICIALS FAMILIAR WITH THE NATURE OF SAUDI CONSENSUS POLITICS, IS KNOWN TO HAVE STRUCK A SENSITIVE NERVE IN THE SAUDI LEADERSHIP. THIS EPISODE COMES AT A TIME OF GROWING STRAIN BETWEEN THE UNITED STATES AND SAUDI ARABIA, THE CHIEF U.S. OIL SUPPLIER, OVER THE AMERICAN ROLE IN ARRANGING THE PEACE AGREEMENT BETWEEN EGYPT AND ISRAEL.

MOST MIDDLE EAST SPECIALISTS IN THE GOVERNMENT WARN THAT THE SAUDIS SHOULD NOT BE PRESSURED INTO ACCEPTING A U.S. POLICY WITH WHICH THEY STRONGLY DISAGREE. NEVERTHELESS, THE SAUDIS HAVE INTERPRETED SOME VOICES IN THE WHITE HOUSE, THE PENTAGON AND CONGRESS AS CONSTITUTING A PRESSURE CAMPAIGN TO INDUCE THEM TO ENDORSE THE PEACE TREATY.

A NEPHEW OF PRINCE FAHD, PRINCE BANDAR BN SULTAN, WAS IN THE UNITED STATES ON OTHER BUSINESS WHEN THE REPORT ON THE U.S. FEARS OF A SAUDI SPLIT APPEARED. SO GREAT WAS SAUDI SENSITIVITY THAT BANDAR WAS INSTRUCTED TO SEEK ASSURANCE FROM ADMINISTRATION HIGHER-UPS THAT AN OFFICIALLY SANCTIONED ANTI-SAUDI CAMPAIGN WAS NOT UNDER WAY.

IN SAUDI ARABIA, MAJOR NEWSPAPERS DO NOT PUBLISH REPORTS OF SENSITIVE FOREIGN POLICY ISSUES WITHOUT OFFICIAL SANCTION. APPARENTLY, MANY OFFICIALS IN RIYADH, THE CAPITAL, HAVE DIFFICULTY BELIEVING THAT A REPORT IN A MAJOR AMERICAN NEWSPAPER COULD BE CARRIED WITHOUT THE ENDORSEMENT OF THE U.S. GOVERNMENT.

SAUDI DISPLEASURE FOCUSED ON THE CIA-STATION CHIEF, U.S. OFFICIALS SAID, BECAUSE HE WAS KNOWN TO HAVE BEEN MAKING INQUIRIES ABOUT THE EXTENT OF DISSENTION AMONG THE FOUR BROTHERS WHO DOMINATE THE RULING FAMILY: KING KHALEID AND PRINCE FAHD (BOTH OF WHOM ARE KNOWN TO BE IN BAD HEALTH), AND PRINCE

#0347
ABDULLAH AND PRINCE SULTAN.

ANNOYANCE APPARENTLY WAS HEIGHTENED BY THE FACT THAT THE NEWS REPORT CONTAINED REFERENCES TO INTELLIGENCE REPORTS FROM THE CIA OPERATIVE THAT FOCUSED ON Fadh'S POOR HEALTH.

THE STATION CHIEF BECAME A TARGET FOR RETALIATION AFTER LEAKED VERSIONS OF HIS REPORTING BECAME IDENTIFIED AS A SOURCE FOR AN ARTICLE THAT THE SAUDIS FOUND OFFENSIVE.

THE INITIAL REPORT OF THE ADMINISTRATION'S DECISION TO WITHDRAW THE CIA MAN WAS MADE PUBLIC LATE LAST WEEK BY CORD MAYER, A RETIRED CIA OFFICIAL WHO NOW WRITES A NEWSPAPER COLUMN.

ACCORDING TO MAYER'S REPORT, WHICH WAS REPEATED OVER THE WEEKEND BY A NEWSPAPER PUBLISHED IN KUWAIT, THE SAUDIS INITIALLY INTENDED TO EXPEL THE STATION CHIEF AS A PERSONA NON GRATA.
FERARING THAT THE EXPULSION WOULD LEAD TO AN EMBARRASSING PUBLIC SQUABBLE, U.S. DIPLOMATS INSTEAD NEGOTIATED A QUIET WITHDRAWAL.

ACKNOWLEDGING THE ARRANGEMENT MONDAY, ADMINISTRATION OFFICIALS ALSO CONFIRMED THAT THE CIA OPERATIVE IS NOW IN WASHINGTON ON “HOME LEAVE” AND THAT HE WILL BE REASSIGNED.

ONE IRRITANT IN THE EPISODE IS THAT FEW MIDDLE EAST SPECIALISTS IN THE ADMINISTRATION SHARE THE VIEW THAT THE SAUDI MONARCHY MAY BE RIVEN BY DISSENSION.

THE PREVAILING VIEW AMONG SPECIALISTS, RATHER, IS THAT THE FOUR BROTHERS—ALL SONS OF KING ABDUL AZIZ IBN SAUD—SHARE AUTHORITY ACCORDING TO A SYSTEM BASED PARTLY ON SENIORITY AND PARTLY ON CONSENSUS. ACCORDINGLY, IT IS BELIEVED THAT ANY VIEW THAT FAHD COULD BE TAGGED AS “WASHINGTON’S MAN IN RIYADH” IS PURE DELUSION.

NEVERTHELESS, THE SAUDI SENSITIVITY TO REPORTS OF DISSENSION IN THEIR RANKS IS ACUTE. DURING THE SAME WEEK IN WHICH THE EXPULSION DEMAND FIRST WAS LODGED AND IN WHICH PRINCE BANDAR WAS SEEKING ASSURANCES IN WASHINGTON A RARE INTERVIEW SET UP EXPRESSLY TO COUNTER THE REPORTS WAS ARRANGED BY ANOTHER OF THE FOUR BROTHERS, PRINCE ABDULLAH.

ACCORDING TO SOME ACCOUNTS, ABDULLAH, COMMANDER OF THE SAUDI NATIONAL GUARD, HAS EMERGED AS FAHD’S CHEAP RIVAL. IN AN INTERVIEW DISTRIBUTED BY THE BAHRAIN-BASED GULF NEWS AGENCY, WHICH IS CAREFULLY MONITORED IN THE WEST, ABDULLAH ASSERTED THAT THE MONARCHY IS “UNITED IN OPINION, SPIRIT, OBJECTIVE AND PERSPECTIVE.... I HAVE NO EXISTENCE EXCEPT THROUGH THAT OF MY BROTHER, HIS HIGHNESS PRINCE FAHD.

(END TEXT)

(PRECEDING FS MATERIAL NOT FOR PUBLICATION) ITEM

MT
#0347
CONFIDENTIAL JIDDA 3696

E.O. 12065: 085 5/9/85 (SIGNER JACKSON L) OR-E
TAGS: ENRG SPEC SA US
SUBJ: DISCUSSION OF IRANIAN SHORTFALL WITH MINPET OFFICIALS

REP: (A) STATE 95864 (B) STATE 107272 (C) JIDDA 3544

1. C - ENTIRE TEXT.

2. USL O ECON OFFICER AND EMBASSY PETROLEUM REPORTING OFFICER HAD HOUR LONG CONVERSATION WITH CHIEF ECONOMIST OF MINISTRY OF PETROLEUM AND MINERALS, PAROKH HUSSEINI, AND SENIOR ECONOMIST SULEIMAN AL-HERBISH ON MAY 6. DRAWING ON POINTS CONTAINED IN REF A EMBASSY OFFICERS EXPRESSED CONCERN OVER VERY TIGHT WORLD SUPPLY SITUATION WHICH WAS BEGINNING TO SHOW UP AS ACTUAL PRODUCT SHORTAGES IN SOME AS WELL AS BEING THE CAUSE OF INSTABILITY IN CRUDE OIL PRICES.

3. WHEN ASKED WHAT WAS THE SAUDI VIEW OF CURRENT IRANIAN PRODUCTION, HUSSEINI REPLIED THAT THEY BELIEVED IT TO BE 4 MILLION B/D PLUS ENOUGH FOR DOMESTIC CONSUMPTION. EMBASSY SAID THAT, ALTHOUGH WE UNDERSTOOD THAT TO BE THE IRANIANS' STATED GOAL AND THAT PRODUCTION HAD HIT THAT LEVEL BRIEFLY AT LEAST ONCE, IT WAS OUR BELIEF THAT IRANIAN EXPORT PRODUCTION WAS STILL CONSIDERABLY BELOW THE 4 MILLION B/D MARK AND WAS THE PRINCIPAL CAUSE OF THE CURRENT TIGHT SUPPLY SITUATION. THEREFORE, A COMBINATION OF SUCCESSFUL CONSERVATION MEASURE AND CONTINUING HIGH LEVELS OF PRODUCTION WOULD BE REQUIRED TO STABILIZE THE WORLD OIL MARKET.

4. HUSSEINI EXPRESSED CONSIDERABLE INTEREST AND SOME MID SKEPTICISM.
OVER AMERICAN EFFORTS AT CONSERVATION IN LIGHT OF FIRST QUARTER US OIL
DEMAND AND IMPACT FIGURES CONTAINED IN APRIL 30 ISSUE OF "PETROLEUM
INTELLIGENCE WEEKLY." EBDOFS WERE ABLE TO POINT OUT THAT, ALTHOUGH
OVERALL DEMAND HAD CONTINUED TO INCREASE, THE FIGURES ALSO CONTAINED
EVIDENCE THAT THE PRESIDENT'S PROGRAM TO SUBSTITUTE NATURAL GAS FOR
RESIDUAL FUEL OIL APPEARED TO BE TAKING HOLD IN THAT DEMAND FOR
RESIDUAL FUEL OIL ACTUALLY DECLINED DURING THE SAME PERIOD. WE THEN
REVIEWED OTHER ASPECTS OF THE PRESIDENT'S ENERGY CONSERVATION PROGRAM,
ITS EXPECTED RESULTS, AND THAT ITS GREATEST IMPACT WOULD BE APPARENT
LATER THIS YEAR. THEREFORE, INASMUCH AS THE SUPPLY SHORTAGE WAS WITH
US RIGHT NOW, THE MOST IMMEDIATE NEED WAS TO REBUILD WORLD INVENTORI-
IES TO PREVENT CONTINUING SHORTAGES. HUSSEINI INTERJECTED THAT HE
AGREED THAT INVENTORIES, ESPECIALLY IN THE US, WERE ABNORMALLY LOW.

5. HUSSEINI SPECULATED THAT THE CONTINUING INCREASE IN US
DEMAND WAS THE RESULT OF FAILURE OF OTHER TYPES OF ENERGY TO BEAR
THEIR FAIR SHARE OF THE US ENERGY BALANCE. ALTHOUGH HE CONCEDED THAT
GAS HAD APPARENTLY BEEN REPLACING RESIDUAL FUEL OIL, HE QUESTIONED
WHETHER THERE WERE ADEQUATE DOMESTIC GAS SUPPLIES TO CONTINUE THIS
TREND. THIS COMMENT WAS PROLOGUE TO A DISCUSSION OF SAUDI ARABIA'S GAS
GATHERING PROJECT, AND THE POTENTIAL FOR LPG TO PLAY A SIGNIFICANT
ROLE IN WORLD ENERGY BALANCE, HUSSEINI POINTED OUT THAT THE ESTIMATED
14 BILLION DOLLAR COST OF THE GAS GATHERING PROJECT WAS GREATER THAN THE
VALUE OF ALL THE CURRENT OIL PRODUCING FACILITIES IN SAUDI ARABIA,
THAT LPG WOULD REPRESENT A SIGNIFICANT ADDITION TO THE WORLD ENERGY
BALANCE IN THE COMING YEARS, AND THAT PROPANE AND BUTANE HAD BECOME
UNDEVALUED IN RESPECT TO BOTH CRUDE AND NATURAL GASOLINE PRICES.
EMBASSY OFFICERS RESPONDED THAT GREAT UTILIZATION OF LPG, AT LEAST IN
THE UNITED STATES, WAS DEPENDENT UPON BOTH COMMERCIAL AND REGULATORY
FACTORS, AND THAT WE WOULD BE HAPPY TO EXPLORE
THESE MATTERS FURTHER WITH THE MINISTRY.

6. COMMENT: HUSSEINI APPEARED TO UNDERSTAND OUR POINT THAT WESTERN
CONSERVATION EFFORTS ARE ESSENTIALLY LONG RUN MEASURES AND THAT
COOPERATION FROM PRODUCERS IS NECESSARY TO COMPENSATE FOR THE IMMEDI-
ATE EFFECTS OF THE IRANIAN SHORTFALL IN ORDER TO STABILIZE THE MARKET
AND PROVIDE A CHANCE FOR CONSUMING NATIONS TO REBUILD INVENTORIES.
HOWEVER, HE REFRAINED FROM COMMENTING ON WHAT THE SPECIFIC SAUDI
RESPONSE WOULD BE.

7. HUSSEINI'S COMMENTS ON THE ROLE OF LPG ARE INTERESTING IN THAT THEY
ARE THE FIRST WE HAVE HEARD IN ANY DETAIL FROM A SENIOR MINISTRY OFFICIAL. ALTHOUGH THE PROSPECT FOR THE SALE OF LPG HAS BEEN REGULAR SUBJECT OF CONVERSATION WITH PETROMIN PRODUCTION AND MARKETING OFFICIALS, THIS IS THE FIRST TIME THE ISSUE HAS BEEN RAISED AT POLICY LEVEL. IT IS OUR IMPRESSION THAT THE MINISTRY IS LOOKING AT THE CURRENT SUPPLY SITUATION AS A MEANS OF ENHANCING THE PROSPECTS FOR LPG SALES. THIS WOULD IMPLY THAT THE SAUDI HAVE AN INTEREST IN MAINTAINING A CERTAIN DEGREE OF TIGHTNESS IN THE WORLD CRUDE SUPPLY UNTIL THE GAS GATHERING PROJECT GOES ONSTREAM IN MID-1980. ON THE OTHER HAND, GROWING SAUDI POLICY-LEVEL INTEREST IN EXPANDING LPG SALES MAY PROVIDE US WITH AN OPPORTUNITY TO BROADEN THE DISCUSSION OF FUTURE SAUDI PRODUCTION LEVELS BY INCLUDING AN ELEMENT OF SAUDI SELF-INTEREST.

DANIELS
BT
#3696
C O N F I D E N T I A L

LIMITED OFFICIAL USE JIDDA 3893

K.O. 12065: NA

TAGS: ECON, ENRG, MASS

SUBJECT: DISCUSSION WITH FRENCH DG, MR. PIERRE LAFRANCE ON OIL AND ARMS

1. THE FRENCH EMBASSY'S DEPUTY CHIEF OF MISSION, MR. PIERRE LAFRANCE, MET ON WEDNESDAY, MAY 16, WITH MESSRS. NICHOLS, SALTOM, AND WALKER TO DISCUSS ISSUES RELATED TO SAUDI ARABIA'S PRESENT ROLE IN OPEC. HE ASKED IF USG EMBASSY OFFICERS THOUGHT THAT SAUDI ARABIA WOULD REDUCE ARAMCO'S PRODUCTION BELOW 8.5 MILLION BARRELS PER DAY TO A LEVEL WHICH WOULD REDUCE THE SAUDI 1979 DAILY AVERAGE TO 8.5 MBPD. HE FURTHER INQUIRED AS TO WHETHER SAUDI ARABIA MIGHT EVEN CUT BACK ARAMCO PRODUCTION MORE, TACTICALLY, THEREBY FACILITATING MORE RAPID OPEC PRICE MANUALS, REGARDLESS OF THE ADVERSE ECONOMIC AND POLITICAL IMPACT OF SUCH A CUTBACK ON SAUDI FINANCIAL ASSETS HELD ABROAD. WE AGREED THAT A DRASTIC CUTBACK WAS VERY UNLIKELY AND THAT IN LIEU OF A SAUDI POLICY STATEMENT,
OUR WORKING ASSUMPTION IS THAT ARAMCO WILL PRODUCE 8.5 MBD FOR THE REMAINDER OF 1979.

2. MR. LAFRANCE RECALLED THAT IN RECENT DISCUSSIONS WITH PÉTRONIÈRE OFFICIALS THEY REMINDED HIM THAT THE SAG'S TARGETED 14 MBD INSTALLED CAPACITY HAD NEVER BEEN INTENDED AS A PRODUCTION GOAL, BUT AS CONTINGENCY CAPACITY FOR "EMERGENCIES".

3. MR. LAFRANCE OBSERVED THAT THE DEMAND SIDE OF THE OIL EQUATION IS AS IMPORTANT AS THE SUPPLY SIDE FOR AVOIDING A SHORTFALL. IN THIS CONTEXT, HE COMMENTED THAT THE FRENCH ARE PUSHING AHEAD WITH NUCLEAR POWER. DESPITE CONCERN IN FRANCE ABOUT THE POLICE STATE MENTALITY THAT MIGHT EVOLVE TO COMBAT THE THREAT OF SABOTAGE. TECHNICAL FAILURE, HOWEVER, IS NOT A WIDESPREAD FEAR IN FRANCE, HE THOUGHT, BECAUSE THE FRENCH HAVE BEEN LUCKY ENOUGH TO AVOID ACCIDENTS.

4. WHEN WE ASKED MR. LAFRANCE ABOUT OIL DISCUSSIONS DURING CROWN PRINCE FAHD'S RECENT VISIT TO PARIS, HE COMMENTED THAT THE FRENCH GOVERNMENT HAD REQUESTED A RENEWAL OF FRANCE'S OIL PURCHASE AGREEMENT WITH SAUDI ARABIA. THE SAUDIS REPLIED THAT DISCUSSIONS OF THIS SHOULD BE DEFERRED UNTIL THE PRESENT SAUDI-FRENCH OIL AGREEMENT EXPIRES IN OCTOBER. MR. LAFRANCE THOUGHT THAT SAUDI HESITANCY TO RENEW ITS OIL SUPPLY AGREEMENT NOW WITH THE FRENCH MAY HAVE BEEN MOTIVATED BY SAG DESIRE TO RETAIN MORE OIL FOR DELIVERIES TO LDC'S. HE OBSERVED THAT SEVERAL COUNTRIES, INCLUDING SPAIN AND BANGLADESH, HAVE RENEWED OIL SUPPLY AGREEMENTS WITH THE SAUDIS RECENTLY.

5. MR. LAFRANCE CONFIRMED PRESS REPORTS THAT PRINCE FAHD HAD DISCUSSED SAUDI PURCHASE OF FRENCH MIRAGES, DURING THE PRINCE'S RECENT VISIT TO PARIS. WHEN ASKED IF THE FRENCH ARE CONCLUDING EXPLICIT AGREEMENTS OF OIL FOR ARMS WITH THE SAUDIS AS THEY HAVE WITH IRAQ, HE QUIPPED THAT THE FRENCH WOULD, IF NECESSARY, GIVE THE SAUDIS OIL IF THEY WOULD PURCHASE FRENCH ARMS. UNFORTUNATELY FOR FRANCE, HE ADDED, IT CANNOT FENE-
TRATE THE SAUDI ARMS MARKET, BECAUSE OF THE DOMINANT US ROLE. MR. LAFRANCE CONFIRMED THAT THE FRENCH ARE CONTINUING THEIR VL FOR ARMS AGREEMENT WITH THE IRAQIS.

6. COMMENT: DOM LAFRANCE'S QUESTIONS ABOUT POSSIBLE SAUDI OIL PRODUCTION CUTBACKS PRECEDED BY A FEW HOURS MINISTER OF PETROLEUM YAMANI'S STATEMENT IN THE WASHINGTON STAR THAT HE THOUGHT THERE WOULD BE NO SAUDI OIL PRODUCTION CUTBACK THIS YEAR. YAMANI SAID, "I THINK UNDER PRESENT CIRCUMSTANCES WE WILL KEEP PRODUCTION FOR THE 9 MONTHS AT 8.5 MILLION BARRELS PER DAY, AND THE FIRST QUARTER WILL STAY AS IT IS, 9.5 MBD, SO THE AVERAGE, THE YEARLY AVERAGE, WILL BE MORE THAN 8.5 MBD, A LITTLE BIT LESS THAN 9.0 MBD."

DANIELS

#3893
E.O. 12065: 08 10/15/85 (PLACE, JAMES A) OR-M
TAGS: PEPR SA US
SUBJ: ABDULLAH-BALL MEETING

1. (C-ENTIRE TEXT.)

2. THE HONORABLE GEORGE W. BALL, FORMER UNDER SECRETARY OF STATE, MET WITH PRINCE ABDULLAH, SECOND DEPUTY PREMIER AND COMMANDER OF THE NATIONAL GUARD, FOR NEARLY TWO HOURS ON OCT 14. THE AMBASSADOR AND POL/MIL COUNSELOR ALSO PARTICIPATED.

3. ABDULLAH WELcomed MR. BALL WARMLY AND LISTENED WITH OBVIOUSLY GREAT INTEREST AS MR BALL DESCRIBED THE RECENT EVOLUTION OF AMERICAN PUBLIC OPINION ON ME SETTLEMENT AND STRATEGI ISSUES. EMPHASIZING THAT HE SPOKE AS A PRIVATE CITIZEN, MR BALL NOTED THAT PUBLIC OPINION WAS BEGINNING TO DIFFERENTIATE SELECTIVELY BETWEEN
U.S. NATIONAL INTERESTS AND THOSE OF ISRAEL. AN ACCOMPANYING FACTOR WAS GROWING AWARENESS OF THE HITHERTO LITTLE KNOWN PALESTINIANS AND THEIR FLIGHT. A SECOND DEVELOPMENT WAS GROWING RECOGNITION OF A COMMONALITY OF INTERESTS SHARED BY THE US AND SAUDI ARABIA IN THE SECURITY OF THE ARABIAN GULF.


5. AT SEVERAL POINTS, ABDALLAH URGED THAT THE USG DEMONSTRATE WIatoria in countering soviet and surrogates threats to ME SECURITY. WE, ADVOCAUM A COMBINATION OF "SWINGING THE STICK" AND ACTIVE DIPLOMACY. IN THIS VEN, ABDALLAH (WHO EARLIER IN THE MEETING HAD LISTENED INTENTLY TO AMBASSADOR WEST'S REVIEW OF THE MOROCCAN MILITARY SITUATION, DERIVED FROM RABAT 7148) ASKED MR. BALL TO URGUE UPON THE CONGRESS AND ELSEWHERE PROVISION OF MILITARY SUPPORT TO KING HASSAN. TO BOLSTER HIS ADVOCACY OF FIRMNESS IN THE GULF REGION, ABDALLAH CLAIMED THAT SAUDI ARABIA REVERSED IRANIAN AGGRESSIVE DESIGNS ON BAHRAIN BY WARNING TEHRAN THAT ANY TAKEOVER ATTEMPT WOULD BE OPPOSED BY THE SAUDIS. WEST
LIMITED OFFICIAL USE JIDDA 4205

E.O. 12065: N/A
TAGS: PINT, SCLL, SOPN, SA
SUBJECT: MORALITY NEWS

1. WRITING IN "AL-MADINA" OF JUNE 3, FEMALE COLUMNIST SOHAYLA ZAYN AL-ABIDIN HAMMAD HAS DENOUNCED THE IMMORAL CONDUCT OF SAUDI YOUTH IN FOREIGN COUNTRIES AND HAS PROPOSED A NOVEL POLICY FOR DEALING WITH THE PROBLEM, CALLING OFFENDERS "A DISGRACE TO THEIR COUNTRY". MS. HAMMAD SUGGESTS THAT SAUDI EMBASSIES ABROAD SHOULD APPOINT INSPECTORS TO CHECK ON NIGHT CLUBS AND SIMILAR PLACES TO ARREST THOSE GUILTY "OF VIOLATING OUR RELIGION". VIOLATIONS WOULD PRESUMABLY INCLUDE DRINKING, GAMBLING, DANCING, AND CO-MINGLING.

2. MR. HAMMAD URGES THAT OFFENDERS, ONCE ARRESTED, SHOULD BE RETURNED TO THE KINGDOM FOR TRIAL. THEIR PASSPORTS SHOULD BE WITHDRAWN AND THEY SHOULD BE BANNED FROM TRAVELLING FOR A CERTAIN PERIOD AS A PUNISHMENT.
4. COMMENT: WE HAVE NOT CHECKED WITH THE FOREIGN MINISTRY TO ASCERTAIN ITS REACTION TO THIS SUGGESTION, BUT THE POST OF CHIEF INSPECTOR IN LONDON OR PARIS MIGHT NOT BE A DIFFICULT ONE TO FILL. IF THE SAUDI DIPLOMATIC MISSIONS ARE UNABLE (OR UNWILLING) TO UNDERTAKE THIS TASK, THEN IN THE FUTURE WE MIGHT SEE MEMBERS OF THE SOCIETY FOR THE ENCOURAGEMENT OF VIRTUE AND PREVENTION OF VICE CARRYING OUT THEIR DUTIES IN THE NIGHT CLUBS OF HAMBURG.

4. FOREIGN TRAVEL FOR SAUDIS ACTS AS AN IMPORTANT SAFETY VALVE TO EASE THE PRESSURES OF LIFE AT LEAST FOR THE UPPER CLASSES, UNDER WAHhabi AUSTERITY. THE GOVERNMENT HAS TACITLY RECOGNIZED THIS VALUE OF FOREIGN TRAVEL AND HAS MADE IT VERY EASY FOR VIRTUALLY ANY SAUDI TO TRAVEL ABROAD. ONE RESULT OF THIS EASY TRAVEL IS THAT THE LOCAL PRESS IS OFTEN FILLED WITH COLUMNS DENOUNCING THE IRRESPONSIBLE BEHAVIOR OF SAUDIS ABROAD. HOWEVER, NO ONE HAS GONE AS FAR AS MR. WAKAED IN PROPOSING GOVERNMENT ACTION. MANY SAUDI WOMEN PRIVATELY COMPLAIN ABOUT THE FREEDOM THEIR MARRIED ENJOY OVERSEAS -- A FREEDOM WHICH IS DENIED MOST WOMEN, WHO ARE EITHER LEFT IN THE KINGDOM OR CLOSELY CHAPERONED WHEN ABROAD.

5. IN ANOTHER MOVE ON THE MORALITY FRONT, "OKAZ" OF JUNE 3 REPORTED THAT THE MINISTRY OF COMMERCE HAS BANNED THE IMPORTS OF T-SHIRTS BEARING PICTURES OF SPORT AND TELEVISION HEROES SUCH AS STEVE AUSTIN, BATMAN, AND MUHAMMAD ALI.

DANIELS

4235

93
CONFIDENTIAL 4275

DEPARTMENT PASS H FOR SENATOR CHILES

E.G. 1285: YG/6/63 (GOVI, H. EUGINE) OR-P
TAGS/ ENR, PEPR, SA, US, OREP
SUBJECT: (C) CONVERSATION BETWEEN SENATOR CHILES AND CROWN PRINCHE FADH I: FADH'S VIEWS ON OIL.

1. (C - ENTIRE TEXT)

2. SENATOR LANNON CHILES HAD AUDIENCES WITH CROWN PRINCE FADH ON JUNE 4 LASTING MORE THAN TWO HOURS. MEETING WAS ALSO ATTENDED BY CHARGE, POL COUNCILOR, AND STAFF AIDES JORDAN AND COLLINS. THREE BASIC SUBJECTS WERE COVERED: MIDDLE EAST PEACE, SAUDI SECURITY, AND OPE'S ROLE IN DETERMINING OIL PRICING AND PRODUCTION. THE FIRST TWO SUBJECTS ARE REPORTED BY SEPTIL.
3. CROWN PRINCE FAND TOLD SENATOR CHILES THAT SAUDI ARABIA HAS NO INTEREST IN RAISING OIL PRICES AND THAT IT HAS WORKED FOR SEVERAL YEARS TO KEEP OIL PRICES DOWN. SAUDI ARABIA UNDERSTANDS THE DANGEROUS CONSEQUENCES OF SHARP RISES IN OIL PRICES. UNFORTUNATELY, THE OTHER OPEC MEMBERS HAVE NOT KEPT THE PRICE GUIDELINES DECIDED ON AT THE LAST OPEC MEETING. SAUDI ARABIA, HOWEVER, HAS ABIDED BY THE OPEC GUIDELINES AND FOR THIS REASON IS LOSING MORE THAN TEN MILLION DOLLARS A DAY. HE SAID THAT SAUDI ARABIA WOULD CONTINUE TO WORK TO MODERATE PRICE INCREASES AND HE THOUGHT IT WAS NECESSARY TO GO BACK TO SINGLE PRICE. HE DID NOT THINK, THOUGH, THAT SAUDI ARABIA COULD CARRY THE BATTLE ALONE. IT WOULD BE HELPFUL, IF THE CONSUMING COUNTRIES WOULD PRESS THE OTHER OPEC COUNTRIES ON THESE SUBJECTS. HE HAD MADE THIS POINT TO FRANCE, GERMANY, AND ITALY DURING HISRECENT TRIP AND HE URGED THEM TO GET IN TOUCH WITH THE LEADERS OF THE OTHER OPEC COUNTRIES AND POINT OUT THE DANGEROUS CONSEQUENCES OF A PRICE INCREASE. FAND SAID THAT THE WISHED TO MAKE TWO POINTS FOR THE SENATOR. SAUDI ARABIA WILL FIGHT AN OIL PRICE INCREASE AT THE UPCOMING OPEC MEETING. FAILING THAT, SAUDI ARABIA WOULD APPEAL TO OPEC MEMBERS TO BE REASONABLE IN ANY PRICE INCREASE, HOWEVER, IF THERE IS PRICE INCREASE, SAUDI ARABIA WILL ALSO INCREASE ITS PRICE. IT CANNOT PERMIT OTHER COUNTRIES TO ENJOY PRICE INCREASES WHILE IT DOES NOT DO SO ALSO. THE SECOND POINT HE WISHED TO MAKE WAS THAT IF IT WAS NECESSARY TO RAISE PRICES SAUDI ARABIA WOULD ALSO INCREASE OIL PRODUCTION AS MUCH AS POSSIBLE. HE DID NOT KNOW BY HOW MUCH IT WOULD BE INCREASED, BUT IN ANY CASE HE WOULD DO HIS BEST.

4. PRINCE FAND SAID THAT ANOTHER MEASURE FOR THE CONTINUED INCREASE IN OIL PRICES WAS THE greed of THE OIL COMPANIES. HE SAID THIS IS ONE AREA WHERE THE WESTERN COUNTRIES CAN HELP. OIL COMPANIES HAVE TAKEN ADVANTAGE OF THE OIL MARKET AND HAVE RAISED PRICES. SENATOR CHILES SAI DHAT THE US WAS VERY CONSCIOUS OF THE ROLE THAT THE OIL COMPANIES MAY HAVE PLAYED IN THE PRICE INCREASES. HE SAID THAT CONGRESS HAS A WINDFALL OIL PROFITS TAX BILL BEFORE IT. HE THOUGHT THERE WOULD BE A STRONG FIGHT IN CONGRESS BUT CONGRESS WILL PASS IT.
5. SENATOR CHILES SAID THAT WE GREATLY APPRECIATED THE
SAUDI INCREASE IN PRODUCTION DURING THE IRANIAN CRISIS.
WITHOUT THAT INCREASE THE WORLD WOULD HAVE BEEN IN SERIOUS
TROUBLE. WE UNDERSTAND OF COURSE THAT SAUDI ARABIA CANNOT
CONTINUE SUSTAINED PRODUCTION AT INCREASED RATES. HOWEVER,
HE HOPED, IN VIEW OF CURRENT IRANIAN SHORTFALL, THAT
SAUDI ARABIA COULD DO ITS BEST TO HELP OVER THIS PERIOD.
HE NOTED THAT ONE OF THE REASONS THE SHORTAGE IS SO ACUTE
AT THE PRESENT TIME IS THAT EVERYONE IS AFRAID OF THE
RESULTS OF THE SHORTFALL AND IS TRYING TO HOARD OIL. IF
WE CAN GET BEYOND THE POINT TO HOARD SUPPLIES, IT WOULD
BE BETTER. FAHD READILY AGREED.

6. COMMENT: FAHD'S STATEMENT -- IF PRICES MUST BE RAISED
THEN THE SAG WOULD INCREASE OIL PRODUCTION AS MUCH AS
POSSIBLE -- STANDS IN STARK CONTRAST TO OIL MINISTER YAM-
AMI'S RECENT PUBLIC STATEMENTS ON RETENTION OF THE 6.5
MILLION B/D PRODUCTION CEILING FOR THE REST OF 1979. THE
SAG MAY ENCOUNTER RESISTANCE FROM OTHER OPEC COUNTRIES
IF ITS PRODUCTION INCREASES IS SIGNIFICANT ENOUGH TO
APPRECIABLY REDUCE THE OIL MARKET TIGHTNESS.
THIS MESSAGE HAS NOT BEEN SEEN BY SENATOR CHILES.
DANIELS
BT
842.75
ECON

Subject: Securities and Exchange Commission Allegations of Illicit Payments by International Systems Control Corporation

Ref: State 156433

1. (S - Entire text)

2. Embassy believes the public airing of these allegations by SEC could only complicate further US-SAG relations at a time when interests of far greater moment are at stake for USG—namely oil production and pricing policies to be taken by SAG at up-coming OPEC meeting in Geneva on June 26.

3. Our relations have recently come under considerable stress as a result of important US-SAG differences on the mid-east peace. SAG prefers to maintain cordial bilateral relations with USG to extent that such existing differences will permit. However, in SAG perception a multiplicity of "minor" issues, which SAG usually considers of US origin or manufacture, are currently exacerbating tensions which have arisen over the larger issues. Non-investment of excess Saudi FMS funds, an alleged sex discrimination case in the instance of the Bendix-Siyanco MODA contract, the Treasury proposed tax regulation which would deny tax credits to US oil companies (Aramco principals), and adverse publicity about the royal family in the US press are examples of items currently complicating our bilateral relations.

4. Therefore, we suggest that the SEC undertake careful scrutiny of the validity of the allegations, after which time we can advise how and when to proceed to minimize adverse foreign policy effects. To make public now the allegations would risk unnecessary damage to our relationship with the SAG.

5. In any case, can the Department request a stay in SEC's actions until we have time to study the matter further, perhaps consulting informally with SAG as we did in previous cases?
ENGLISH:

CONFIDENTIAL SECTION 1 OF 2 DHAHRAN 1018/1

E.O. 12065: GDS 6/20/85 (MEYERS, DONALD F.) ORE-E
TAG: ENRG, OPEC, SA

SUBJECT: ASSISTANT DEPUTY OIL MINISTER VIEWS WORLD OIL SITUATION AND
UPCOMING OPEC MEETING

1. SUMMARY: KHUDHER ZAHRULLAH (PROTECT), ASSISTANT DEPUTY MINISTER OF
PETROLEUM, DISCUSSED WORLD ENERGY SITUATION WITH CONSOFF ON JUNE 20. HE CLAIMED LARGE CRUDE OIL PURCHASES BY
AMERICAN OIL COMPANIES WERE CURRENTLY KEEPING SPOT MARKET
CHAOTIC AND THAT WITH RECENT LOWER PRODUCTION IN IRAN, MARKET
DISEQUILIBRIUM WILL PROBABLY CONTINUE. HE WONDERED
IF IRANIAN GOVERNMENT WAS "PLAYING GAMES" AT PRESENT
TO FORCE HIGHER PRICES AT UPCOMING OPEC MEETING.
HERZOLLAH LEFT IMPRESSION THAT SAG HAD NOT WORKED OUT
PRECISE STRATEGY FOR MEETING BUT WOULD TRY FOR MODERATION
IN PRICE HIKE AND OFFER TO BOOST PRODUCTION TO BRING
STABILITY TO MARKET. TOUCHING BRIEFLY ON APPARENT
STRAINED USG/SAG RELATIONS, HE OBSERVED THAT SAUDI
"POLITICIANS" WERE LESS PRONE TO DO FAVORS FOR FRIENDS
WHO DID NOTHING TO PREVENT SOILING SAUDI REPUTATION.
END SUMMARY.

2. KHUDHER ZAHRULLAH, ASSISTANT DEPUTY MINISTER FOR
PETROLEUM WHO IS PETROMIN YAMANI'S CHIEF EXPERT ON FINANCE
AND WHO IS LEAVING ON JUNE 23 TO ATTEND GENEVA OPEC
CONFERENCE, SPOKE WITH CONSOFF ON JUNE 20 REGARDING
WORLD ENERGY SITUATION, UPCOMING OPEC CONFERENCE, U.S.
MEASURES TO CONSERVE ENERGY, U.S. POLITICS, RUMORS OF
U.S. TAKEOVER OF OIL FIELDS, SAUDI ABILITY TO INFLUENCE
OIL PRICES, AND USG/SAG RELATIONS.
1. Herzollah stated that it was his opinion that the large American oil companies were keeping spot market prices high and chaotic by purchasing large amounts in that market. He said that he heard almost every day of some American firm trying to outbid other firms for crude.

2. When it was pointed out to Herzollah that recent reports had Iranian production currently below a million B/D and that this could be a major contributor to market disruption, Herzollah agreed. He wondered if OIL was "playing games" at present in order to push for higher prices at OPEC meeting. Iranians could show that in spite of their resumption of production, market was still destabilized and only higher prices would cut demand. However, Herzollah balanced this idea with discussion of leftist elements in Iranian oil work force who were holding down production and cuttings for their own internal political reasons.

3. Consoff attempted several times during conversation to steer Herzollah toward Saudi position on upcoming OPEC meeting but with little success. Herzollah left impression that sag had not worked out detailed position but would strive for "moderation." "There will be an increase in price," Herzollah said. "But I can't say how much." The only hint he would give of Saudi position was that he would like to see "steady, upward rise in prices," by "small increments, not big jumps as in the past."

4. Herzollah was most interested in U.S. efforts to curb consumption. He then outlined his conspiracy theory by U.S. administration to control consumption by forcing higher prices. "I don't think you government is too unhappy about the recent price rise," said Herzollah, "as it forces the U.S. public to do what the administration has been attempting to obtain by voluntary actions."

5. In reply to question about possibility of Saudi Arabia raising production, Herzollah said that "nothing has been decided, but it's a definite possibility." Production increase might bring some stability to market, but if it were true that Iranian production was below 3 MBD, Saudi boost in production would not give that much relief. However, if U.S. and other industrial countries cut back on consumption as much as they promised to do, market could return to some form of equilibrium. The problem was still there, however, Herzollah said, since this supply/demand situation would allow for no growth and stagnant economies.
CONFIDENTIAL SECTION 2 OF 2

DEU 1018/2

6. When consoffs mentioned great difficulties for LDC countries meeting increased cost of oil, Herzollah stated that he sympathized with LDC's as well as with plight of industrial countries. He said higher prices for latter countries "hurt us, our economy, our imports, our investments."

9. Herzollah then asked consoff if he thought there was possibility that U.S. was considering taking over Saudi oil fields. He said "top ranking" Saudi officials had said in same chair that consoff was in, and they had discussed matter in light of increasing world energy shortage. Other Saudi official had advanced theory that increased shortage of energy supplies would cause Americans to try to take over in order prevent rapid deterioration in American lifestyle. However, this official said that Saudis would never cooperate ("we will have the workers facing Mecca nine times a day to pray") and U.S. could never control the fields. Herzollah then answered his own question by stating that he thought "same reasoning" would prevail in U.S., and not attempt would be made.

9. Again trying to return to OPEC meeting, consoff said that Saudis would have difficult time at Geneva in preventing large price increase but that we were hopeful that they could do so. Herzollah replied by saying that it was difficult for "friends of the U.S." to be helpful on oil matters when Saudis are made to "look bad" by certain elements in the U.S., and USG does nothing to prevent such slander. "Politicians (in Saudi Arabia) are sensitive to misrepresentation of Saudi Arabia," and it is difficult for them to continue their cooperation when Saudi Arabia is victim of elaborate attempt to soil its reputation.

10. Conversation ended on upbeat note with Herzollah telling of his plans to take his wife and children to U.S. next month. "I promised to show them Washington, D.C.," he said, "and I want them to see all the monuments." Lindstrom

ET #1018
THE US AND SAUDI ARABIA: OIL TROUBLES THE WATERS:
OPEC MEETINGS, LIKE ARAB SUMMITS, HAVE BEEN CONTRIBUTORS TO THE PROBLEMS IN THE US-SAUDI RELATIONSHIP. ALTHOUGH THE SAUDIS HAVE ASSURED US THEY WILL TRY TO HOLD OIL PRICE INCREASES TO A MINIMUM, THIS WEEK'S OPEC CONFERENCE SEEMS DESIGNED TO BE ANOTHER IRITANT.

2. AT THE BAGHDAD MEETINGS, WE HOPED THE SAUDIS WOULD TAKE POSITIONS WHICH THEY PERCEIVED TO BE IN BASIC CONTRADICTION TO THEIR INTERESTS AS AN ARAB MUSLIM STATE CONCERNED ABOUT JERUSALEM AND PALESTINIAN ASPIRATIONS.

3. AT OPEC WE WANT SAUDI ARABIA TO TAKE POSITIONS WHICH MANY SAUDIS SEE AS OPPOSED TO THEIR ECONOMIC AND POLITICAL INTERESTS.

(A) SOME YOUNG SAUDIS, SOME TECHNOCRATS, AND SOME MEMBERS OF THE RULING FAMILY WANT TO CONSERVE OIL PRODUCTION AND MAXIMIZE PRICE TO ASSURE STABLE, LONG-TERM GROWTH.

(B) THE SAUDIS DO NOT WANT TO BE ALONE IN OPPOSITION TO OPEC COLLEAGUES ALTHOUGH THEY HAVE PUBLICLY SPECULATED ABOUT POSSIBLE TWO-TIERED PRICING AGAIN, PERHAPS AS A BARGAINING CHIP WITH THOSE COUNTRIES WANTING SHARP PRICE INCREASES.
OTHER ARAB STATES (AND MANY SAUDIS) WOULD SEE SAUDI EFFORTS TO ACCOMMODATE THE US ON PRICE AND PRODUCTION AS CAPITULATION TO US INSULATIONS.

MANY IN THE ARAB WORLD WOULD ARGUE THAT NOW IS PRECISELY THE TIME TO REVERSE THE RELATIONSHIP AND GET THE SAUDIS TO PRESSURE THE US. OUR LONG LINEUPS FOR GASOLINE AND NEWS STORIES ABOUT SCARCE AND MORE EXPENSIVE HEATING OIL THIS WINTER COINCIDE WITH THE ISRAELI DEBATE ON SETTLEMENT POLICY AND CONTINUED ISRAELI MILITARY ACTION IN LEBANON. THE TIME IS RIPE, THEY SAY, TO GET THE US, ISRAEL'S CHIEF PATRON, TO WRING CONCESSIONS FROM THE BEGIN GOVERNMENT.

4. BUT THE SAUDIS HAVE LITTLE TASTE FOR CONFRONTATION AND ONCE AGAIN SEEM TO BE SEEKING, IN PUBLIC AND PRIVATE STATEMENTS, A SAUDI-STYLE COMPROMISE (CAUSING THE MOST PEOPLE THE LEAST DISPLEASURE).

5. INDEED, THERE IS GREAT DOUBT THAT THE SAUDIS CAN INFLUENCE OPEC AS MUCH AS THEY ONCE DID. THE SAUDI ADHERENCE TO THE DOL'S 14.55 PRICE PLUS A SMALL SURCHARGE HAS NOT KEPT OTHER OPEC MEMBERS FROM STEADILY RAISING PRICES. PREDICTIONS NOW CALL FOR NEW PRICES IN THE DOL'S 18 TO DOL'S 21 A BARREL RANGE. ALTHOUGH THE SAUDIS ARE INDICATING THEY INTEND TO PRESS HARD FOR PRICE MODERATION, THEY MAY HAVE ALREADY RESIGNED THEMSELVES TO SUCH INCREASES.

6. OF LATE THE SAUDIS HAVE MENTIONED A POSSIBLE PRODUCTION INCREASE OF 500,000 TO ONE MILLION BPD. THEY MAY SEE THIS AS A TEMPORARY MEASURE WITH THE AIM OF:

(A) LESSENING DEMAND AND RESTORING MORE ORDER TO THE MARKET;

(B) REDUCING SPOT MARKET PRICES;

(C) MAKING AN IMPORTANT POLITICAL ACCOMMODATION TO THE US TO OFFSET LIKELY CONGRESSIONAL AND PRESS CRITICISM OF WHATEVER ACTION OPEC TAKES; AND

(D) PRODDING CONSUMER COUNTRIES TO MAKE GOOD ON PROMISES OF CONSERVATION.

#4312
The US to Respond in a Similar Spirit.

President Sadat opened the new People's Assembly on Saturday with a speech that was notable for its moderate rhetoric. His harshest criticism of the rejectionists characterized the rulers of Libya, Syria, and Iraq as "adolescents" who rule with "...steel and fire and gallows." He said that Egypt "would not adopt a negative stand on any step they (the rejectionists) want to take..." If they want a Geneva conference, then we would say yes. If they want the Soviet Union's participation, then we would say yes." Sadat, in effect, challenged the rejectionists to present a program to end the Middle East conflict, but he went on to predict that they would evade..."The confrontation..." The Egyptian President praised the opposition for providing a "counteropinion" in building democracy, and lauded the role of the press. He did, however, speak of "settling accounts" with those writers who publish criticisms of Egypt in the foreign media in a bill to be presented to the assembly in August. Sadat also said that he plans to meet soon with Begin. Embassy Cairo comments that, significantly, Sadat did not attack Saudi Arabia or the Gulf States.

Israel-Egypt: A senior IDF liaison officer told the Sinai field mission that one of two Israeli divisions in the southern command is being pulled out of the Sinai and probably would be redeployed in the Jordan Valley "where it is needed."

The Middle East News Agency on June 21 quoted an official Egyptian foreign ministry source as saying that the Israeli decision to set up a regional council of Israeli Golan settlements was "a new proof of continued Israeli violation of the principles of international law." The source also said that the Israeli measure is contrary to the Camp David accords and a "continuation of attempts to place obstacles on the road of a comprehensive and just settlement."
11. (U) WEST BANK: THE JERUSALEM POST ON JUNE 20 REPORTED THAT THE ISRAELI MILITARY GOVERNMENT PREVENTED THE SCHEDULED JUNE 19 MEETING CALLED BY HEBRON MAYOR QAWASIMA TO PROTEST THE ISRAELI SIT-IN IN THE HADASSAH BUILDING. ABOUT 200 HEBRON NOTABLES WERE STOPPED AT ROADBLOCKS WHILE TRYING TO GET TO THE MEETING. ACCORDING TO THE POST, QAWASIMA HAD BEEN WARNED THAT THE MEETING WOULD BE BANNED, BUT WENT AHEAD ANYWAY. QAWASIMA ALSO STATED THAT TRAVEL RESTRICTIONS ON HIM, WHICH INCLUDED A REFUSAL OF PERMISSION TO TRAVEL TO THE US, WERE RECONFIRMED BY ISRAELI AUTHORITIES.

12. (C) EAST JERUSALEM LAWYER ELIAS KHOURY WAS PLEASED BY THE ISRAELI SUPREME COURT INJUNCTION FREEZING DEVELOPMENT OF ELON MOREH, WHICH HE DID NOT EXPECT. HE SAID THAT, SINCE THERE IS NO ELECTRICITY NOR SEWERS AT THE SITE, IT WILL BE DIFFICULT FOR THE SETTLERS TO STAY ON FOR LONG. THE COURT IS DUE TO ADJOURN FOR THE SUMMER ON JULY 15 AND HE BELIEVES IT UNLIKELY THE CASE WILL BE HEARD BEFORE SEPTEMBER. WHEN THE CASE IS HEARD, KHOURY INTENDS TO BASE HIS ARGUMENT AGAINST THE SETTLEMENT ON THE SECURITY ISSUE, AND IS OBTAINING OPINIONS FROM SOME IN THE ISRAELI MILITARY WHICH CONTRADICT THE GOVERNMENT'S CLAIMS. HE DOES, HOWEVER, BELIEVE THAT IN THE END THE COURT IS LIKELY TO ACCEPT THE SECURITY ARGUMENTS OF THE GOVERNMENT.

13. (U) ISRAEL: THE ISRAELI CABINET DECIDED ON SUNDAY TO RELEASE DEFENSE MINISTER WEIZMAN FROM SERVING ON THE AUTONOMY NEGOTIATING COMMITTEE. WEIZMAN WILL REMAIN AVAILABLE FOR CONSULTATIONS WITH THE COMMITTEE ON SECURITY MATTERS, AND GENERAL TAMIR, HIS ADVISOR ON NATIONAL SECURITY AFFAIRS, WILL REMAIN A MEMBER OF THE DELEGATION. REUTER REPORTS THAT WEIZMAN LEFT THE COMMITTEE BECAUSE OF HIS STRONG DISSATISFACTION WITH BEGIN'S AUTONOMY POLICY. IT APPEARS, HOWEVER, THAT THE TWO HAVE MOVED BACK FROM THE CONFRONTATION THAT OCCURRED BETWEEN THEM OVER ELON MOREH LAST WEEK.

14. (U) REUTERS REPORTED ON JUNE 24 THAT FOREIGN MINISTER DAYAN UNDERWENT SUCCESSFUL SURGERY TO REMOVE A POLYP FROM HIS INTESTINAL TRACT. HE IS EXPECTED TO LEAVE THE HOSPITAL WITHIN THE NEXT 10 DAYS.

15. (U) ACCORDING TO PRESS REPORTS, A BOMB EXPLODED INSIDE A VAN AT TEL AVIV'S BUS STATION ON JUNE 24, KILLING TWO ARABS RIDING IN THE VEHICLE. ISRAELI POLICE SOURCES SAID THE TWO WERE APPARENTLY ON THEIR WAY TO PLANT THE BOMB WHEN IT EXPLODED PREMATURELY. THE PLO CLAIMED RESPONSIBILITY FOR THE BOMBING.

16. (U) THE NEW CHINA NEWS AGENCY REPORTED ON JUNE 23 THAT PREMIER HUA KUO-FENG HAS RULED OUT ANY POSSIBILITY OF CHINA OPENING RELATIONS WITH ISRAEL, WHICH HE CLAIMED "HAS INVADED THE TERRITORIES OF ARAB COUNTRIES AND REFUSED TO RECOGNIZE THE SACRED NATIONAL RIGHTS OF PALESTINE."
17. (U) CANADA-ISRAEL: ON JUNE 23, PRIME MINISTER CLARK INDICATED THAT HIS CONTROVERSIAL PLAN TO SHIFT THE CANADIAN EMBASSY IN ISRAEL TO JERUSALEM WOULD REMAIN ON THE SHELF UNTIL NEXT YEAR. CLARK ALSO SAID THAT HE HAS SET UP A FACT-FINDING PANEL TO STUDY THE MOVE.

18. (U) LEBANON: RADIO BEIRUT REPORTED THAT ISRAELI WARPLOVES ATTACKED TWO TARGETS IN SOUTHERN LEBANON ON JUNE 24. ONE GROUP ATTACKED THE AQIBIYEH AREA (9 MILES SOUTH OF SIDON) NEAR THE AL-BEYSARIJEH REFUGEE CAMPS. PALESTINIAN SOURCES CLAIMED SEVERAL HOUSES AND 20 SHOPS WERE DESTROYED AND APPROXIMATELY 25 PEOPLE WERE KILLED OR WOUNDED. ANOTHER GROUP OF PLANES STRUCK VILLAGES NEAR THE PORT CITY OF TYRE.

19. (C) SOURCES OF OUR DEFENSE ATTACHE IN BEIRUT HAVE CONFIRMED THAT TWO FIJIAN UNIFIL MEMBERS WERE WOUNDED JUNE 19 IN AN EXCHANGE OF FIRE WITH PALESTINIANS SOUTH OF TYRE.

20. (C) DURING RECENT CONVERSATIONS WITH EMBASSY BEIRUT, THE GOVERNOR OF SOUTH LEBANON CLAIMED THAT THE RESUMPTION OF GOVERNMENT SERVICES TO THE REGION HAS SO FAR BEEN SUCCESSFUL. WATER, ELECTRICITY, AND TELEPHONE SYSTEMS ARE WORKING IN TYRE, FOR EXAMPLE, AND REPAIRS TO THE LINES DELIVERING POWER SOUTH OF THE CITY ARE ALMOST COMPLETE.

21. (C) EMBASSY BEIRUT REPORTED ON JUNE 22 THAT A CEASE-FIRE BETWEEN LEBANESE ARMY (LAF) AND SYRIAN (ADF) FORCES IN THE AQURAH AREA CONTINUED TO HOLD. THE LAF AND ADF HAVE REPORTEDLY AGREED TO THE FOLLOWING MEASURES TO DEFUSE THE SITUATION:

(A) THE LAF WILL REINFORCE ITS UNITS IN THE AREA;

(B) THE ADF WILL PULL BACK FROM THE AQURAH AND AFQA AREAS; AND

(C) LEBANESE AUTHORITIES WILL COMPLETE THE ROAD WHICH THE ADF WAS BUILDING.
THE FIGHTING BEGAN WHEN THE LAF FIRED ON ADF UNITS WORKING ON THE ROAD, WHICH PURPORTEDLY IS INTENDED TO LINK SHIA VILLAGES, BUT ALSO GIVES THE ADF MUCH EASIER ACCESS TO THE TRADITIONAL CHRISTIAN REGION OF LEBANON.

22. (C) SYRIA: COMMENTING ON THE SYRIAN GOVERNMENT ANNOUNCEMENT OF THE MURDER OF OVER 50 ALAWITE CADETS, EMBASSY DAMASCUS NOTES THAT THE GOVERNMENT HAS PINNED THE BLAME ON THE MUSLIM BROTHERHOOD AND "IMPERIALISTS" INSTEAD OF THE YOUTH OF MUHAMMAD (YOM), WHICH IS WIDELY CREDITED WITH BEING RESPONSIBLE FOR THE RECENT UPSURGE IN TERRORISM. AN EMBASSY SOURCE SAYS THAT THE BROTHERHOOD (WHICH HAS MUCH MORE SUPPORT AMONG SUNNIS THAN THE YOM) WAS CHOSEN DELIBERATELY, IF RELUCTANTLY, BY ASSAD BECAUSE HE MUST placate ALAWITE PRESSURE FOR A VERY TOUGH RESPONSE TO KILLINGS BY SUNNIS. THE GOVERNMENT IS LIKELY TO EMPLOY HEAVY HANDED AND REPRESSIVE TACTICS IN SEARCHING FOR THE MURDERERS AND, IF A CAMPAIGN AGAINST THE BROTHERHOOD IS EARNESTLY PURSUED, RUNS THE RISK OF ONLY EXACERBATING THE ALREADY SERIOUS INTERCOMMUNAL STRIFE BETWEEN ALAWITES AND SUNNIS.

23. (U) ARAFAT-SOVET UNION: THE KUWAITI NEWSPAPER AL-QABAS, CITING "WELL-INFORMED PALESTINIAN SOURCES," CLAIMED ON JUNE 23 THAT PLO LEADER ARAFAT WILL VISIT MOSCOW IN JULY AS PART OF A TOUR OF EASTERN EUROPEAN COUNTRIES.

24. (U) WEST GERMANY-MIDDLE EAST: CHANCELLOR HELMUT SCHMIDT WAS CITED BY THE JERUSALEM POST ON JUNE 22 AS SAYING HE THOUGHT A NEW WAR IN THE MIDDLE EAST WAS "MORE THAN LIKELY" AND WARNING ISRAEL THAT IT MIGHT LOSE ITS FRIENDS AS A RESULT OF ITS CURRENT SETTLEMENT POLICY ON THE WEST BANK. "IF ISRAEL GOES ON WITH ITS PRESENT POLITICAL COURSE," HE REPORTEDLY SAID, "IT WILL BE DIFFICULT TO REMAIN A FRIEND." (IT HAS BEEN REPORTED EARLIER THAT GERMAN FOREIGN MINISTER GENSCHER WILL VISIT SEVERAL ARAB STATES LATER THIS SUMMER.) CHRISTOPHER

BT #4318

NNNN
FOLLOWING SENT ACTION SECSTATE INFO BAGHDAD DHAERAN JERUSALEM
MOGADISCU RIYADH KUWAIT JULY 1

QUOTE

CONFIDENTIAL JUL I JIDDA 4865

DEPT. PLEASE PASS TO NEAR EAST AND SOUTH ASIAN POSTS

K.O. 12065: GDS 7/1/85 (BOVIS & EUGENE) OR- P
TAGS: PEPF SA US
SUBJ: (U) KING KHALID’S JUNE 30 INTERVIEW WITH KUWAITI NEWSPAPER
AL-SIYASSAH

1. (U) PORTIONS OF KING KHALID’S INTERVIEW JUNE 30
WITH KUWAITI NEWSPAPER AL-SIYASSAH WERE PROMINENTLY FEATURED
ON FRONT PAGES OF SAUDI NEWSPAPERS JULY 1,
BOTH ENGLISH AND ARABIC. MOST OF THEM STRESSED STATEMENTS
ON GULF SECURITY AND RELATIONS WITH UNITED STATES.
ON GULF SECURITY, SAUDI GAZETTE QUOTED HIM AS SAYING: "WE BELIEVE
THAT ANY INTERFERENCE IN THE REGION WILL NEVER ACHIEVE THE AIMS
THAT PROMPT IT. IN FACT, IT WILL ACHIEVE PRECISELY THE OPPOSITE.
IT IS THE PEOPLE OF THE REGION ALONE WHO SHOULD BE
RESPONSIBLE FOR PROTECTING THE REGION, AND THE
PEACE-LOVING POWERS SHOULD ENCOURAGE THEM IN THAT RESPONSIBILITY."

2. (U) ON US RELATIONS AND THE EGYPTIAN-ISRAELI TREATY.
SAUDI GAZETTE REPORTS THAT THE KING ASSERTED THAT,
WHATEVER HAD BEEN SAID ABOUT SAUDI DISAGREEMENTS WITH THE US
OVER THE EGYPT-ISRAEL TREATY, "RELATIONS BETWEEN THE KINGDOM AND
THE US ARE STRONGLY BASED ON MUTUAL COOPERATION IN DIFFERENT FIELDS.
THE DIFFERENCES OVER THE TREATY DO NOT AFFECT THE CONTINUITY OF
FRIENDSHIP WITH THE UNITED STATES." HE IS REPORTED TO HAVE GONE ON
TO SAY: "OUR STAND COMES FROM THE BELIEF THAT THERE CAN BE NO
COMPLETE PEACE IN THE REGION UNTIL ARAB RIGHTS AND LAND ARE
COMPLETELY RESTORED. THE KINGDOM'S STAND IS GETTING INCREASED SUP-
PORT IN AMERICA, BUT IN ANY CASE, THE FACT THAT WE HAVE DIFFERENT VIEWS ON THIS ONE SUBJECT DOES NOT AFFECT OUR FRIENDSHIP.

3. (C) COMMENT: KHALID'S STATEMENTS ON THE PEACE TREATY AND US RELATIONS ARE CONSISTENT WITH ATTEMPT BY JAS TO KEEP MIDDLE EAST PEACE PROBLEMS SEPARATE FROM SAUDI-US BILATERAL RELATIONS AND TO PRESERVE AS GOOD BILATERAL RELATIONS AS POSSIBLE. REMARKS ON GULF SECURITY ARE CONSISTENT WITH SAUDI STAND THAT BEST WAY TO ASSURE GULF SECURITY IS THROUGH STRENGTHENING DEFENSES OF GULF COUNTRIES, RATHER THAN THROUGH PRESENCE OF US BASES IN AREA.

WE DOUBT, HOWEVER, THAT KHALID MEANT TO SAY THAT US INTERVENTION COULD BE UNWELCOME IN CASES OF DIRECT ATTACK BY USSR OR SOVIET-BACKED SURROGATES. SAUDI OFFICIALS HAVE BEEN FRANK TO TELL US QUITE BUT OFFICIALLY THAT THEY EXPECT DIRECT US INVOLVEMENT IN THAT EVENT. WEST

UNQUOTE CHRISTOPHER
ET
#2794
1. SAUDI VIEWS OF THE US-SAUDI SPECIAL RELATIONSHIP:
EMBASSY JIDDA RECENTLY OBSERVED THAT THE SAUDIS WANT TO
KEEP DIFFERENCES OVER THE PEACE PROCESS SEPARATE FROM
US-SAUDI BILATERAL RELATIONS, AND THAT THEY WOULD LIKE
THE SPECIAL RELATIONSHIP BETWEEN US TO CONTINUE. THE
BASIS OF THIS RELATIONSHIP--OUR NEED FOR OIL AND THE
SAUDI NEED FOR SECURITY--WILL CONTINUE TO EXIST, BUT,
THE EMBASSY POINTS OUT, ONLY SERIOUS EFFORT ON BOTH SIDES
CAN MAKE IT WORK.

2. SAADAT'S TRIP TO JERUSALEM, THE CAMP DAVID ACCORDS,
AND THE EGYPTIAN-ISRAELI TREATY HAVE PRODUCED SHARP
dIFFERENCES BETWEEN THE US AND SAUDI ARABIA IN THE PAST
18 MONTHS. IN ADDITION, THE ENERGY CRUNCH, WORSENED BY
THE DECLINE IN IRANIAN OIL PRODUCTION, HAS PLACED INTO
CRITICAL FOCUS SAUDI VIEWS AND ACTIONS ON OIL PRODUCTION
AND PRICING.

3. THE EFFECT OF THESE DEVELOPMENTS ON US-SAUDI RELATIONS
HAS LED EMBASSY JIDDA TO PONDER THE STATUS OF OUR SPECIAL
RELATIONSHIP, WHICH IN RECENT YEARS HAS APPLIED TO A WIDE
RANGE OF MATTERS INVOLVING OUR MUTUAL SELF-INTEREST:

(A) SAUDI ARABIA'S MILITARY DEFENSES: THE SAUDIS STILL REGARD THEIR MILITARY RELATIONSHIP WITH THE US AS A MUTUALLY BENEFICIAL PARTNERSHIP WHICH THEY WISH TO MAINTAIN.

(B) COOPERATION IN REGIONAL AFFAIRS: WHILE EVENTS IN THE "ARC OF CRISIS" HAVE FOSTERED SAUDI DOUBTS ABOUT OUR WILLINGNESS TO ASSIST THEM IN AN EMERGENCY, PUBLIC COMMITMENTS TO THEIR SECURITY AND OUR RESPONSES TO THEIR PLEAS FOR ASSISTANCE TO NORTH YEMEN DURING THE YEMEN WAR renewed SAUDI CONFIDENCE IN THE US AS A SOURCE OF STRENGTH.

(C) US-SAUDI COOPERATION IN THE KINGDOM'S ECONOMIC DEVELOPMENT: IN SPITE OF DISINCENTIVES CREATED BY US POLICIES WHICH DISCOURAGE PARTICIPATION OF US FIRMS IN THE SAUDI MARKET, OUR TIES WITH THE SAUDIS CONTINUE TO BE MUTUALLY BENEFICIAL—WE HAVE THE TECHNOLOGY THAT THEY WANT, AND THEY NOW CONSTITUTE OUR SEVENTH LARGEST MARKET.

(D) COORDINATION IN PRODUCTION AND SUPPLY OF OIL: THE SAUDIS HAVE BEEN MITTLED BY CRITICISMS OF THE RISE IN OIL PRICES, FEELING THAT WE HAVE FAILED TO APPRECIATE THEIR ROLE IN INCREASING PRODUCTION TO OFFSET THE IRANIAN SHORTFALL (DURING THE DECEMBER-FEBRUARY PERIOD) AND IN HOLDING DOWN PRICES. IN BALANCING OPEC UNITY AND THEIR OWN CURRENT REVENUE NEEDS, ON THE ONE HAND, AGAINST THEIR RESPONSIBILITIES TO THE WEST AND THEIR SPECIAL RELATIONSHIP WITH THE US ON THE OTHER, THE SAUDIS RECOGNIZE THEY HAVE NEITHER ENOUGH SURPLUS PRODUCTION CAPACITY NOR ENOUGH POLITICAL WILL TO DICTATE TO OPEC. IT IS INCREASINGLY DIFFICULT FOR THE LEADERSHIP TO EXPLAIN TO THE TECHNOCRATS WHY SAUDI OIL PRICE AND PRODUCTION POLICIES ARE NOT MORE CONSISTENT WITH THEIR APPARENT ECONOMIC INTERESTS.

(E) COOPERATION ON MIDDLE EAST POLICY: WHILE THE SAUDIS WANT A COMPREHENSIVE SETTLEMENT ACHIEVED THROUGH PEACEFUL MEANS, THEY SEEK TO PRESERVE ARAB SOLIDARITY OUT OF FEAR THAT POLARIZATION OF THE ARAB WORLD WILL THREATEN SAUDI SECURITY AND ENLARGE THE SOVIET ROLE IN THE MIDDLE EAST. UNDER THESE CIRCUMSTANCES, THE SPECIAL RELATIONSHIP DOES NOT ATTEND TO SAUDI SUPPORT FOR THE EGYPTIAN-ISRAELI TREATY AS IT NOW STANDS—PARTICULARLY SINCE IT DOES NOT PROVIDE FOR A SOLUTION TO THE JERUSALEM QUESTION.

(F) OTHER MATTERS: SAUDI ARABIA POSSESSES A CONSERVATIVE SOCIETY WHOSE LAW AND CONSTITUTION ARE THE DIVINELY INSPIRED LAWS OF ISLAM. THIS IS SOMETHING QUITE APART
FROM OUR OWN MATERIALIST, SECULAR AND PLURALIST SOCIETY, THE CONTRAST PERIODICALLY CAUSES US TO COME INTO CONFLICT OVER A VARIETY OF ISSUES, INCLUDING THOSE RELATING TO HUMAN RIGHTS.

4. EMBASSY JIDDA BELIEVES THAT THE SAUDIS STILL WANT TO MAINTAIN THEIR SPECIAL RELATIONSHIP WITH US, BUT THAT THEY WISH TO REDEFINE IT TO LEAVE OUT COOPERATION ON THE MIDDLE EAST PEACE PROCESS. THEY STILL WANT TO WORK WITH US IN ECONOMIC DEVELOPMENT, REGIONAL AFFAIRS, AND BILATERAL MILITARY MATTERS. IN EXCHANGE, THEY HAVE TALKED ABOUT ASSISTING THE US IN THE ENERGY FIELD—OIL. FOR SECURITY IS STILL THE ESSENCE OF THE SPECIAL BT

#3894
5. **EVEN WITH THIS NEW DEFINITION, HOWEVER, SOME SAUDIS ARE FEARFUL THAT THE SPECIAL RELATIONSHIP WILL NOT WORK. SAUDI ARABIA'S RELATIONS WITH THE OTHER ARAB STATES AND WITH THE OPEC COUNTRIES WILL SUBJECT THE KINGDOM TO PRESSURES AGAINST CONCESSIONS REQUIRED BY THE SPECIAL RELATIONSHIP. SIMILARLY, FAILURE OF THE US PUBLIC TO APPRECIATE THE SAUDI ROLE AT THE JUNE 26-28 OPEC MEETING, US PUBLIC REACTION TO OIL PRICE INCREASES COMING OUT OF THE MEETING, AND CONTINUING US REACTION TO SAUDI RELUCTANCE TO SUPPORT THE EGYPTIAN-ISRAELI TREATY COULD CREATE SERIOUS PROBLEMS FOR THE UNITED STATES IN PURSING A SPECIAL RELATIONSHIP WITH SAUDI ARABIA.**


7. **(C) TO SUPPORT THEIR CLAIM OF LOOMING PROBLEMS, THE OFFICIALS ARE USING A CONCEPT WITH LITTLE ECONOMIC MEANING--PER CAPITA DEBT--INSTEAD OF THE COMMONLY ACCEPTED MEASUREMENT OF THE DEBT SERVICE RATIO WHICH RELATES DEBT SERVICE PAYMENTS TO ABILITY TO PAY. THE ISRAELIS PROBABLY ARE TRYING TO MAKE A WORSE CASE IN ORDER TO OBTAIN BETTER TERMS FOR US ASSISTANCE, WHICH WILL BE UNDER REVIEW SOON.**

8. **(C) THE DEBT BURDEN IS RISING BECAUSE ISRAELI**
9. (U) ISRAEL-MILITARY: REUTER REPORTED JULY 2 THAT ISRAELI CHIEF OF STAFF ETAN HAD PERSONALLY REDUCED THE SENTENCE OF AN ARMY OFFICER CONVICTED OF MURDERING FOUR ARABS DURING THE ISRAELI INCURSION INTO SOUTH LEBANON TWO YEARS AGO. AN APPEALS COURT HAD UPHeld AN EIGHT YEAR TERM BEFORE THE CHIEF OF STAFF REDUCED THE SENTENCE TO TWO YEARS. Knesset member Shulamit Aloni called the convicted officer a war criminal and said the Knesset could not accept the chief of staff's action. The news report said the issue is expected to be debated in the Knesset this week.

10. (U) USSR-US-MIDDLE EAST: REFERRING TO AMBASSADOR STRAUSS' VISIT TO JORDAN AND SAUDI ARABIA, MOSCOW'S ARABIC "WINDOW ON THE WORLD" PROGRAM OF JULY 2 SAID THE VISIT IS AIMED AT EXPEDITING THE FORMULATION OF THE NEW DEAL AT THE EXPENSE OF THE PALESTINIAN PEOPLE AND...TRYING TO WEAKEN THE CONFRONTATION OF JORDAN AND SAUDI ARABIA WITH THE EGYPTIAN-ISRAELI DEALS. THE BROADCAST SAID "WASHINGTON IS APPLYING SPECIAL PRESSURE ON RIYADH AND STRIVING...TO EXPLOIT SAUDI ARABIA'S CLOSE RELATIONS WITH THE US. THE PROGRAM ALSO SAID WASHINGTON HAS NOT GIVEN UP THE IDEA OF USING FORCE TO ACHIEVE ITS "IMPERIALISTIC OBJECTIVES."

11. (C) EGYPT-KUWAIT: THE GOVERNOR OF EGYPT'S CENTRAL BANK HAS TOLD SEVERAL EMBASSY CAIRO OFFICERS THAT NO FORMAL OR INFORMAL REQUEST, TO HIS KNOWLEDGE, WAS MADE BY KUWAIT TO THE EGYPTIAN CENTRAL BANK FOR REPATRIATION OF ITS DOLLS 355 MILLION ON DEPOSIT. THIS CONTRADICTS EGYPTIAN MINISTER OF ECONOMY AL-SAYEH'S REMARKS SOME WEEKS AGO TO AMBASSADOR MILLS THAT SUCH A REQUEST HAD BEEN RECEIVED. EMBASSY CAIRO COMMENTS THAT KUWAIT'S WITHDRAWAL OF ITS DEPOSITS FROM EGYPT DOES NOT APPEAR TO BE A PRESSING PROBLEM FOR EGYPT.

12. (U) EGYPT-AQI: A MIDDLE EAST NEWS AGENCY REPORT SAYS THAT EGYPT HAS FAILED TO REACH AGREEMENT WITH SAUDI
ARABIA, QATAR AND THE UNITED ARAB EMIRATES ON THE LIQUIDATION OF THE ARAB ORGANIZATION FOR INDUSTRIALIZATION (AOI). The report said that if the other three parties are agreeable, Egypt plans to ask the World Bank to arbitrate the dispute. Egypt had previously said that it would carry on alone with the AOI if the other partners backed out.

13. (C) EGYPT-PETROLEUM: Egypt is taking advantage of recent OPEC price increases and production shortages to greatly raise the price of its crude oil. Egypt has notified its customers that its highest quality blend crude would sell for DOLS 32.50 a barrel in the third quarter.
14. (U) SAUDI ARABIA-OIL-TERRORISM: PRESS REPORTS JULY 2 QUOTED THE NEWSWEEK INTERVIEW IN WHICH SAUDI OIL MINISTER YAMANI SAID THE PALESTINIANS COULD SINK A SUPERTANKER IN THE STRAIT OF HORMUZ AND MAKE THE CURRENT OIL CRISIS "SEEM LIKE CHILD'S PLAY." ...THE PALESTINIANS ARE GROWING DESPERATE," YAMANI SAID, "AND I WOULDN'T BE SURPRISED IF ONE DAY THEY SANK ONE OR TWO SUPERTANKERS... TO FORCE THE WORLD TO DO SOMETHING ABOUT THEIR PLIGHT AND ISRAEL'S OBSTINACY.;

15. (U) ARAFAT-PRESS CONFERENCE: IN A PRESS CONFERENCE JULY 3, IN BEIRUT YASSER ARAFAT:

(A) ACCUSED ISRAEL OF USING INTERNATIONALLY BANNED WEAPONS AND RENDERING 600,000 LEBANESE AND PALESTINIANS HOMELESS;

(B) ASKED HOW PRESIDENT CARTER COULD SPEAK ABOUT HUMAN RIGHTS AND YET FORGET THE HUMAN RIGHTS OF LEBANESE AND PALESTINIANS BEING KILLED BY THE "AMERICAN WAR MACHINE;" AND

(C) APPEALED TO THE PRESS AND INTERNATIONAL OPINION TO SPEAK OUT ON THIS MASSACRE.;

16. (U) FLO-ISLAMIC CONFE-NCE: REUTER REPORTED JULY 3 THAT AT AN ISLAMIC CONFE-NCE MEETING IN MOROCCO THE FLO CALLED ON ISLAMIC COUNTRIES TO DEVISE AN ECONOMIC STRATEGY TO FORCE INDUSTRIALIZED NATIONS, PARTICULARLY THE US, TO CHANGE POLICIES TOWARD THE PALESTINIANS. THE STRATEGY SHOULD COVER PETROLEUM, BANK DEPOSITS, TRADE AND INVESTMENT, THE FLO SAID.

THE "INFORMED SOURCE, IN THIS CASE IS BELIEVED TO BE FOREIGN MINISTER KHADDAH.


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ZUI STATE 173894 IMI 173894 DE RUEHC 3894 1870106 P 051951Z
JUL 79. PARA 8. IMI & LINE 5 IMI 5 PERCENT OMITTED AND
SEMI-COLON ACCIDENTLY REPLACED IT. PLS CORRECT LINE 5
PARA 8 TO READ AS FOLLOWS:

"5 PERCENT. THE SLOW RATE OF INCREASE IN DEBT SERVICE"

IKS

#0306

NNNNAFDM
CONFIDENTIAL JIDDA 4991

E.O. 12065: GDS 7/9/85 (NORRIS, CHESTER) OR-E
TAGS: ENRG, SA
SUBJECT: (U) SAUDI PRODUCTION INCREASE

REF: JIDDA 4917 (NOTAL)

1. (C - ENTIRE TEXT)
FOLLOWING THE REPORT OF JULY 2 FROM ROYAL COURT SOURCES THAT SAUDI ARABIA WOULD INCREASE PRODUCTION BY AN UNSPECIFIED AMOUNT, ENGLISH-LANGUAGE PAPER "ARAB NEWS" INTERVIEWED DR. ABDUL HADI TAHER, GOVERNOR OF PETROMIN. DR. TAHER STATED THAT THE EXACT SIZE OF THE INCREASE WAS NOT YET FIXED AND WAS TO BE DECIDED BY TECHNICAL CONSIDERATIONS; THE INCREASE WAS TEMPORARY AND DESIGNED TO MEET "THE GOVERNMENT'S FINANCIAL REQUIREMENTS"; AND THAT THE EXACT PRODUCTION WOULD BE SHARED AMONG PETROMIN AND THE FOUR US OIL COMPANIES THAT ARE THE PARTNERS IN OPEC.

A COMMENT: DR. TAHER LEFT FOR LONDON EARLY THIS MORNING. WORKING LEVEL OFFICIALS IN THE JIDDA OFFICE OF PETROMIN COULD NOT ADD TO PUBLISHED REPORTS, NOR COULD PRESS OR DIPLOMATIC CONTACTS OF THE EMBASSY. ONE CONTACT SUGGESTED THAT PART OF THE INCREASED PRODUCTION MIGHT BE ALLOCATED TO THE ENTITLEMENTS OR THE JOINT VENTURE PARTNERS IN THE NEW REFINERY AND PETROCHEMICAL PROJECTS IN JUBAIL AND YENBU, BECAUSE OF THE EMPHASIS ON NATIONAL DEVELOPMENT IN BOTH THE ORIGINAL STATEMENT AND THE TAHER INTERVIEW. HOWEVER, THE STATEMENT THAT THE INCREASE IS ONLY TEMPORARY TENDS TO NEGATE THIS THEORY, AND SUGGESTS THAT THESE STATEMENTS ARE INTENDED TO DEFLICT CRITICISM BY OTHER OPEC MEMBERS OF HAVING "SOLD OUT" TO THE U.S.

WEST

#4991
SECRET

SUBJ: RF-4C DEPLOYMENT TO SAUDI ARABIA (U)

REF: YOUR WD1742Z MAY 79

1. (S//S) USAF CAN SUPPORT A DEPLOYMENT SUCH AS PROPOSED IN REF MSG CONTINGENT UPON SUFFICIENT LEAD TIME FOR PLANNING AND PROVISION OF FUNDING TO COVER TOTAL COSTS. CRITICAL FUNDING SHORTFALLS WITHIN THIS COMMAND PRECLUDE THE USE OF USAFE FUNDS TO MEET THIS REQUIREMENT, INCLUDING DEPLOYMENT/REDEPLOYMENT COSTS. IT SHOULD BE NOTED THAT DEPLOYMENT OF TWO RF-4C WOULD REQUIRE A SUPPORT PACKAGE OF 40 TO 60 PERSONNEL AND INVOLVE DETAILED ADVANCED PLANNING INCLUDING THE NEED FOR A SITE SURVEY.

2. (S//S) DEPENDING UPON THE PRECISE GOALS OF THIS DEPLOYMENT, OTHER FORCE SIZES AND COMPOSITIONS MAY PROVE MORE BENEFICIAL. IT IS OUR UNDERSTANDING THAT SOME FORM OF EXERCISE DEPLOYMENT MIGHT BE CONSIDERED AS A MEANS OF SHOWING US INTEREST AND SUPPORT IN SAUDI ARABIA. IN THE CASE, THE BEST APPROACH MIGHT BE TO INCLUDE A RECONNAISSANCE ELEMENT AS PART OF A LARGER PACKAGE INCLUDING F-4S OR OTHER FIGHTERS. SUCH A FORCE WOULD PROVIDE A MORE EFFICIENT USE OF SUPPORT ASSETS. ON THE OTHER HAND, IF THE SOLE OBJECTIVE IS TO UPGRADE SAUDI ARABIAN RECONNAISSANCE CAPABILITIES, IT MAY NOT BE NECESSARY TO DEPLOY RF-4C BUT CONCENTRATE ON SOME FORM OF AN ASSISTANCE VISIT DESIGNED TO SURVEY REQUIREMENTS. IN EITHER CASE, THIS DEPLOYMENT SHOULD BE VIEWED AS A FIRST STEP TO IDENTIFY PROBLEM AREAS RATHER THAN A SOLUTION TO UPGRAADING SAUDI ARABIAN CAPABILITIES. THE LONGER RANGE GOAL WOULD APPEAR TO REQUIRE SOME FORM OF MAAG EQUIVALENT TEAM PROVIDED FROM CONUS RESOURCES.

DECL 04 MAY 1985.

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120
SECRET - ENTIRE TEXT.

2. FYI: ACTION ADDRESSEES SHOULD BE AWARE THAT THE SAG AND THE USG HAVE AGREED TO COMMENCE P-3 SURVEILLANCE FLIGHTS IN THE NEAR FUTURE. THE AIRCRAFT WILL USE DHAHRAN AIRFIELD FOR ONE DEPLOYMENT EACH MONTH WHICH WILL LAST 3-5 DAYS. EACH DEPLOYMENT WILL CONSIST OF ONE DIEGO GARCIA TO DHAHRAN, ONE DHAHRAN TO DHAHRAN AND ONE DHAHRAN TO DIEGO GARCIA LEG. SAUDI MILITARY OFFICERS WILL PARTICIPATE IN THE DHAHRAN TO DHAHRAN LEG OF THE DEPLOYMENT AND THE SAG WILL HAVE ACCESS TO THE INFORMATION GATHERED.

3. THE PURPOSE OF THE DEPLOYMENT IS TO CONDUCT MARITIME SURVEILLANCE OF THE ARABIAN SEA, GULF OF OMAN, PERSIAN GULF, GULF OF ADEN AND THE RED SEA. END FYI.

CHRISTOPHER
RT
#4729
SECRET

PAGE 2

RF-4G FIGHTERS. SUCH A FORCE WOULD PROVIDE A MORE EFFICIENT USE OF SUPPORT ASSETS. ON THE OTHER HAND, IF THE SOLE OBJECTIVE IS TO UPGRADE SAUDI ARABIAN RECONNAISSANCE CAPABILITIES, IT MAY NOT BE NECESSARY TO DEPLOY RF-4G BUT CONCENTRATE ON SOME FORM OF AN ASSISTANCE VISIT DESIGNED TO SURVEY REQUIREMENTS. IN EITHER CASE, THIS DEPLOYMENT SHOULD BE VIEWED AS A FIRST STEP TO IDENTIFY PROBLEM AREAS RATHER THAN A SOLUTION TO UPGRADING SAUDI ARABIAN CAPABILITIES. THE LONGER RANGE GOAL WOULD ApPEAR TO REQUIRE SOME FORM OF MAAG EQUIVALENT TEAM PROVIDED FROM COMCOS RESOURCES.

DECL 04 MAY 1985.

II

#0246
SECRET - ENTIRE TEXT

FYI: ACTION ADDRESSEES SHOULD BE AWARE THAT THE SAG AND THE USG HAVE AGREED TO COMMENCE P-3 SURVEILLANCE FLIGHTS IN THE NEAR FUTURE. THE AIRCRAFT WILL USE DHABAN AIRFIELD FOR ONE DEPLOYMENT EACH MONTH WHICH WILL LAST 35 DAYS. EACH DEPLOYMENT WILL CONSIST OF ONE DIEGO GARCIA DEPLOYMENT, ONE DHABAN DEPLOYMENT AND ONE DHABAN TO GARCIA LEG. SAUDI MILITARY OFFICERS WILL PARTICIPE IN THE DHABAN TO DHABAN LEG OF THE DEPLOYMENT AND THE SAG WILL HAVE ACCESS TO THE INFORMATION GATHERED.

THE PURPOSE OF THE DEPLOYMENT IS TO CONDUCT MARITIME SURVEILLANCE OF THE ARABIAN SEA-GULF OF OMAN, PERSIAN GULF OF ADEN AND THE RED SEA. END FYI.

CHRISTOPHER

7/29
E.O. 12065: GDS 7/16/85 (SALOOM, JOSEPH) OR-E

SUBJECT: CONGRESSIONAL HEARINGS ON OPEC INVESTMENT IN THE US

REF: STATE 180653 (NOTAL)

1. (C - ENTIRE TEXT)

2. ECONOFF PASSED INFO IN PARAS 1-4 OF REFTEL TO DEPUTY MINISTE OF FOREIGN AFFAIRS (IN CHARGE OF ECONOMIC AND PETROLEUM MATTERS), SHEIKH ABDULLAH ALIREZA ON JULY 16.

3. ALIREZA'S REACTION TO HEARINGS WAS NOT OUT OF CHARACTER. HE CYNICALLY DISMISSED THE PROCEEDINGS AS "YOUR (I.E. THE USG'S) PROBLEM" AND SAID THAT IF THE US DIDN'T WANT SAUDI INVESTMENT, ALL IT HAD TO DO WAS SAY SO. THE SAG WAS NOT FORCING ITS INVESTMENTS ON THE US AND HAD MANY ALTERNATIVES FOR PLACING SURPLUS FUNDS.

4. COMMENT: THE FACT THAT ALIREZA ASKED WHETHER WE HAD AN ARABIC TEXT OF THE SUBSTANCE OF PARAS 1-4 OF REFTEL MAY INDICATE SOMETHING MORE SERIOUS CONCERN THAN OPENLY EXPRESSED.

WEST
BT
#5266
F.0. 12865 GG - 7/18/85 (TWINAM, JOSEPH)

TAGS: MILI, SA, US

SUBJECT: SAUDI ATTITUDE TOWARD US MILITARY PRESENCE

1. DURING JULY 17 LUNCHEON WITH SAUNDERS AND TWINAM, SAUDI AMBASSADOR ALHEGELEAN VOLUNTEERED FOR THE SECOND TIME IN OUR CONTACTS WITH HIM SINCE HIS ARRIVAL A FAIRLY POINTED CRITICISM OF US MILITARY PRESENCE IN THE PERSIAN GULF/ARABIAN PENINSULA REGION. HIS THEME WAS THAT IN THE ABSENCE OF MIDDLE EAST PEACE, ANY INCREASE IN US MILITARY PRESENCE WOULD BE UNSETTLING IN THE REGION AND THAT IF PEACE IS ACHIEVED IT WOULD BE UNNECESSARY.

2. SINCE HIS ARRIVAL ALHEGELEAN HAS STRUCK US AS BOTH ARTICULATE AND EXTREMELY WELL BRIEFED BY SAUDI AMBASSADORIAL STANDARDS. HIS LINE ON MILITARY PRESENCE IS A VARIATION ON THAT WHICH PRINCE SAUD TOOK IN THE PREPARATORY COMMITTEE MEETING FEBRUARY 18 IN RIYADH WHEN BOB MURRAY AND COMPANY RETURNED TO RIYADH IN THE COURSE OF SECRETARY BROWN'S VISIT TO THE AREA.

3. FOR AMBASSADOR WEST: IT WOULD BE HELPFUL TO HAVE YOUR VIEW, WITHOUT YOUR MAKING-APPROACH TO SAG, AS TO EXTENT ALHEGELEAN'S COMMENTS REFLECT OFFICIAL SAG POSITION OR WHETHER HE IS SIMPLY FREE-WHEELING AGAINST THE BACKGROUND OF PUBLICLY CONSERVED CONCERN IN THE GULF ABOUT RUMORS OF US BUILDUP OF CAPABILITIES TO INTERVENE MILITARILY IN THE REGION. IN 1974-75 NEGOTIATIONS TO RETAIN US NAVY IN BAHRAIN, SAUDI SUPPORT WITH GOVERNMENT OF BAHRAIN FOR MIDDLE EAST FORCE PRESENCE WAS AN IMPORTANT FACTOR IN EVENTUAL BAHRAINI DECISION TO LET US RETAIN FACILITIES. WE WOULD BE PARTICULARLY INTERESTED IN YOUR ASSESSMENT OF WHETHER SAG WOULD SUPPORT, OR AT LEAST RAISE NO OBJECTION, TO AN INCREASE IN THE MIDDLE EAST FORCE PRESENCE. VANCE
E.O. 12265: GDS 7/22/85 (WEST, JOHN) OR-M
TAGS: MILI, SA, US
SUBJECT: (U) SAUDI ATTITUDE TOWARD U.S. MILITARY PRESENCE
REF: STATE 126174

1. (C - ENTIRE TEXT)

2. I HAVE TWO COMMENTS TO MAKE ON AMBASSADOR HUJAYLAN'S
REMARKS AT LUNCHEON WITH SAUNDERS AND TWINAM. FIRST, I
THINK THE SAUDIS WANT US SECURITY BUT WITH LOW US
VISIBILITY. IF AND WHEN SAUDI ARABIA IS ATTACKED BY THE
USSR, THEY WOULD EXPECT US TO BE THERE EVEN IF IT MEANT
DIRECT INTERVENTION AND DIRECT US PRESENCE. SIMILARITY
IF ATTACKED BY USSR SURROGATE, THEY WOULD WANT US TO COME
TO THEIR ASSISTANCE IN THE FORCE AND MANNER REQUIRED BY THE
SITUATION. SHORT OF THAT, HOWEVER, THEY DO NOT WANT A DIRECT
US MILITARY PRESENCE IN SAUDI ARABIA OR IN THE
IMMEDIATE AREA. IF THERE HAS TO BE AN AMERICAN BASE OR
PRESENCE, THEY PREFER THAT IT BE SOMEWHERE JUST OVER
THE HORIZON SO THAT IT WOULD NOT BE VISIBLE BUT SO THAT
IT WOULD BE ABLE TO REACH THE SCENE IN GOOD TIME IN
CASE OF NEED. IN THE MEANMEAT, THEY WANT US TO CONTINUE
TO STRENGTHEN THEIR MILITARY DEFENSES SO THAT THEY CAN
HANDLE ANY PURELY LOCAL SITUATION THAT MAY ARISE.
SAUDIS WANT LOW U.S. PRESENCE SO AS NOT TO UPSET THE NEIGHBORS. A US PRESENCE WOULD CREATE PROBLEMS FOR THEM WITH THE OTHER ARABS, ESPECIALLY IRAQ AND EGYPT, AND FURTHER AFIELD, LIBYA AND ALGERIA. FOR THIS REASON, SAG SPOKESMEN WILL CONTINUE, ALONG WITH WAIT AND THE OTHER PULF STATES, TO SOUND OFF AGAINST ANY PUBLIC SUGGESTION THAT US MAY BE OR SHOULD BE PLANNING FOR INTERVENTION IN THE GULF. THEY WILL TAKE PUBLIC LINE THAT THERE IS NO REAL THREAT AND THAT, IN ANY EVENT, THE STATES OF THE AREA WILL PROTECT THEMSELVES. ACCORDINGLY, WHILE SAUDI ARABIA WILL NOT PUBLICLY SUPPORT INCREASE OF MIDDLE EAST FORCE OPERATING FROM BAHRAIN, WE DO NOT THINK THEY WILL OBJECT TO IT, PROVIDED A) BAHRAIN DOES NOT OBJECT, B) INCREASE IS NO DEST C) INCREASE IS MADE DISCREETLY AND WITHOUT UNFARE, AND D) TIMING IS NOT SUCH AS TO COINCIDE WITH NEW ROUND OF PUBLICITY ABOUT US CONTINGENCY PLANS FOR GULF.

MY SECOND COMMENT IS THAT HUJAYLAN IS CLOSER TO PRINCE SAUD THAN TO PRINCE SULTAN. WHILE SULTAN DID FEEL CONSTRAINED IN INTERVIEWS WITH BEIRUT PRESS OVER LAST FEW DAYS TO SOUND THE PUBLIC LINE, HE TENDS IN GENERAL TO BE LESS PRONE THAN SAUD TO GET EXCITED ABOUT OCCASIONAL REFERENCES TO POSSIBILITY OF US PRESENCE IN THE AREA. BOTH SAUD AND SULTAN ACCEPT IN PRIVATE THE NECESSITY FOR US SECURITY SHEILD FOR SAUDI ARABIA AGAINST SOVIETS, HOWEVER, SAUD IS MORE NATIONALIST IN OUTLOOK AND TENDS TO EMPHASIZE NEED FOR LOW VISIBILITY MORE THAN SULTAN DOES. HUJAYLAN APPEARS TO BE DOING THE SAME THING AND IN FACT TO BE APPROACHING THE PUBLIC LINE IN HIS LUNCHEON COMMENTS.
SECRET SECTION 01 OF 02 STATE 191439/01

E.O. 12065: GDS 7/23/85 (ROBERTS, SAMUEL)

TAGS: EG, IS, PINR

SUBJECT: INTSUM 858 - JULY 23, 1979

LONDON FOR GLASPIE
PARIS FOR NICHOLAS MURPHY
DOD/ISA FOR RANSOM
OTHER ADDRESSEES FOR CHIEFS OF MISSION

WARNING NOTICE SENSITIVE SOURCES AND METHOD INVOLVED
NOT RELEASABLE TO FOREIGN NATIONALS

(PARAGRAPHS 1-6 SECRET)

1. SAUDI ARABIA: THE OIL LINKAGE: PSYCHOLOGICAL AND
SOCIOLOGICAL FACTORS HELP TO EXPLAIN THE SUBLIME LINKAGE
BETWEEN THE SAUDIS' OIL PRODUCTION POLICIES AND THEIR
EXPECTATIONS OF PROGRESS IN THE MIDDLE EAST PEACE PROCESS:

(A) THE SAUDIS HAVE A DEEPLY INGRAINED AVERSION TO
APPEARING TO BE THREATENING; THAT MAKES BLUNT USE OF
THE OIL WEAPON, SUCH AS OCCURRED IN 1973, AN EXCEPTION.
TO THE SAUDIS, THREATS AND BLACKMAIL DIRECTLY CHALLENGE
FUNDAMENTAL BEDOUIN NORMS AND ARE THEREFORE REGARDED
AS TACTICALLY COUNTERPRODUCTIVE.

(B) IF A SAUDI WANTS TO INFLUENCE A FRIEND, HE DOES SO
IN THE CONTEXT OF RECIPROCITY. IN THE SAUDI SYSTEM,
FRIENDS HAVE A MUTUALITY OF OBLIGATIONS THAT OBLIGES
ONE TO HELP ANOTHER, BUT ALSO MAKES ONE FEEL FREE TO
CALL UPON ANOTHER IN TIME OF NEED. IN THE PROCESS,
INFLUENCE IS EXERCISED AND EXPECTATIONS ARE MET WITHOUT
CONFRONTATION.

2. THESE FACTORS SUGGEST THAT THE SAUDIS ARE UNLIKELY
TO MAKE AN EXPLICIT LINKAGE BETWEEN OIL AND THE PEACE
PROCESS. KING KHALID AND CROWN PRINCE FAHD, IN FACT,
HAVE SPECIFICALLY DENIED THAT THESE TWO MATTERS ARE
INTERCONNECTED. BUT SUCH DENIALS SHOULD NOT BLIND THE
US TO THE EXPECTATIONS THAT SAUDIS HOLD.
3. EMBASSY JIDDA HAS RECENTLY REPORTED THAT THE SAUDIS ARE BEGINNING TO REGARD THEIR SPECIAL RELATIONSHIP WITH THE US AS BEING SOMEWHAT UNBALANCED IN THE LATTER'S FAVOR. THE CURRENT SHORTFALL IN WORLD OIL SUPPLIES HAS UNDERLINED FOR SAUDI ARABIA THE ABSOLUTE DEPENDENCE OF THE UNITED STATES AND ITS WESTERN ALLIES ON IMPORTED OIL. IT HAS LED THE SAUDIS TO EXPECT MORE CONSIDERATION AND MORE CONCESSIONS FROM THE US IN RETURN FOR THEIR OIL.

4. SUPPORT FOR THIS ARGUMENT CAN BE FOUND IN:

(A) CROWN PRINCE Faisal's public suggestion in June that the United States start an immediate dialogue with the PLO. "THE SAUDI GOVERNMENT," HE SAID, "WOULD BE MORE THAN PREPARED TO CONTRIBUTE TO THIS TAKING PLACE.,"

(B) SHEIK YAMANI'S ASSERTION IN A JULY INTERVIEW THAT IF THE US COULD NOT COMPEL ISRAEL TO WITHDRAW FROM THE OCCUPIED TERRITORIES, IT "MUST BE PREPARED TO FACE THE CONSEQUENCES.... YOU CAN'T EXPECT ARABS TO COOPERATE ON OIL UNLESS THERE ARE POSITIVE INCENTIVES ON THE POLITICAL FRONT."

(C) SAUDI DECISION TO CONDUCT AN INTENSIVE TECHNICAL REVIEW OF OIL PRODUCTION IN AUGUST; WE BELIEVE THAT THIS REVIEW WILL RECOMMEND AGAINST THE PRODUCTION OF ADDITIONAL OIL AFTER SEPTEMBER UNLESS THERE ARE COMPELLING FOREIGN POLICY REASONS TO DO OTHERWISE.

5. IN THIS CONTEXT, EMBASSY JIDDA JUDGES THAT THERE IS A STRONG BUT UNSPOKEN LINK BETWEEN THE RECENT OIL PRODUCTION INCREASE AND SAUDI EXPECTATIONS OF PROGRESS IN THE PEACE PROCESS. WE SHARE THE EMBASSY'S BELIEF THAT IF THERE IS NO PROGRESS IN THE NEXT SIX MONTHS THERE WILL BE EXCEPTIONALLY STRONG PRESSURES WITHIN THE SAUDI HIERARCHY FOR A RETURN TO A PRODUCTION LEVEL OF 8.5 MILLION BARRELS OF OIL A DAY, AS WELL AS THE ACCOMMODATION TO A UNIFIED AND HIGHER PRICE OF OIL AT THE DECEMBER OPEC MEETING.

6. IN SHORT, WE BELIEVE THAT THE SAUDIS HAVE GIVEN THE US AN INDUCMENT, RATHER THAN A THREAT, TO ADD MOMENTUM TO THE PEACE PROCESS. THE SAUDIS' PERCEPTION THAT THE US HAD FAILED TO RESPOND TO THIS INDUCMENT, HOWEVER, WOULD RESULT IN ITS WITHDRAWAL.

(PARAGRAPHS 7-9, UNCLASSIFIED)

7. THREAT TO US SHIPPING: THE US HAS WARNED OIL TANKERS TRANSITING THE PERSIAN GULF AREA, PARTICULARLY THE STRAIT OF HORMUZ, OF THE POSSIBILITY OF AN ATTACK OR OTHER HOSTILE ACTION AGAINST THEM.

8. THE MAIN SHIPPING CHANNEL THROUGH THE STRAIT, WHICH UTILIZES THE SHORTEST ROUTE AROUND THE MUSANDAM PENINSULA OF NORTHERNOMAN, IS 30 TO 35 KILOMETERS WIDE.
LONG AND EIGHT TO 13 KILOMETERS WIDE. THE INBOUND AND
OUTBOUND CHANNELS ARE SEPARATED BY A PROHIBITED AREA ABOUT
TWO KILOMETERS WIDE. DEPTHS IN THE CHANNEL GENERALLY
RANGE FROM 75 METERS TO MORE THAN 200 METERS. THE
OUTBOUND CHANNEL IS WIDE ENOUGH AND DEEP ENOUGH TO ENABLE
SHIPEMENTS TO CONTINUE EVEN IF TWO SUPERTANKERS WERE SUNK
IN IT.

9. OUTBOUND TANKERS COULD AVOID ANY DANGER IN THE
CHANNEL BY PASSING THROUGH THE BROAD, SHALLOWER PART OF
THE STRAIT NORTH AND EAST OF THE QUIN ISLANDS WHERE
DEPTHS RANGE FROM 45 TO 80 METERS, MORE THAN ADEQUATE
TO PERMIT PASSAGE OF THE LARGEST SUPERTANKERS.

10. (U) ISRAEL-UN OBSERVERS: THE PROPOSAL TO STATION
UN OBSERVERS IN THE SINAI WHEN THE UNEF MANDATE EXPIRES
JULY 24 WAS REJECTED AT AN ISRAELI CABINET MEETING JULY
22. ACCORDING TO JERUSALEM RADIO, BEGIN TOOK PART IN
THE DECISION. THE ISRAELI POSITION IS THAT THE
STATIONING OF THE OBSERVERS CONTRADICTS THE CAMP DAVID
AGREEMENTS, THE RADIO REPORT SAID.

11. (U) BEGIN'S HEALTH: BEGIN WAS REPORTED BY HIS
DOCTORS TO BE RESTING COMFORTABLY OVER THE WEEKEND.
HE CONTINUES TO RECEIVE VISITORS, INCLUDING GOVERNMENT
OFFICIALS. THE ARTERIAL BLOCKAGE, WHICH CAUSED DIZZI-
NESS AND VISION PROBLEMS, REPORTEDLY IS BEGIN'S ONLY
IMMEDIATE PROBLEM. THERE ARE NO REPORTS OF A RECURRENCE
OF HIS HEART PROBLEMS OR OTHER HEALTH PROBLEMS.

12. (U) ISRAEL-UN-SETTLEMENTS: JERUSALEM RADIO REPORTED
JULY 22 THAT THE ISRAELI CABINET REJECTED THE UN'S
RESOLUTION ON SETTLEMENTS, SAYING THE SETTLEMENTS ARE
LEGAL AND THERE IS NO CHANGE IN THE STATUS OF JERUSALEM.
THE CABINET ALSO SAID ISRAEL WOULD NOT COOPERATE WITH
THE UN SETTLEMENT COMMISSION. (IT DID NOT COOPERATE
WITH THE COMMISSION PREVIOUSLY.)

13. (U) SYRIA-ISRAEL-SANCTIONS: SYRIA'S UN REPRESENTA-
TIVE JULY 20 CALLED ON THE SECURITY COUNCIL TO INVOKE
SANCTIONS AGAINST ISRAEL BASED ON THE FINDINGS OF THE
UN COMMISSION ON SETTLEMENTS. HE SAID THE COMMISSION'S
REPORT WOULD BE MEANINGLESS UNLESS THE UN TOOK ACTION
BUT THAT HE WAS AWARE THAT ISRAEL'S "PATRON" WOULD VETO
SANCTIONS AGAINST ITS "PROTEGE."
14. (C) EGYPT-ISRAEL-OIL: EGYPTIAN OFFICIALS HAVE TOLD EMBASSY CAIRO THAT, CONTRARY TO EARLIER ASSUMPTIONS, THE ARAB SANCTIONS AGAINST EGYPT ARE CREATING PROBLEMS IN THE SUPPLY OF PETROLEUM PRODUCTS. EGYPT IS BUYING THESE PRODUCTS FROM MEDITERRANEAN COUNTRIES, NOW THAT ARAB COUNTRIES HAVE CUT EGYPT OFF, BUT THESE NEW SUPPLIERS -- ITALY, GREECE AND FRANCE -- HAVE BEEN RELUCTANT TO SELL TO EGYPT BECAUSE THEY FEAR ARAB RETALIATION, ACCORDING TO THE EGYPTIANS. EGYPT IS RETALIATING BY THREATENING TO CUT OFF CRUDE TO COUNTRIES WHICH WILL NOT SUPPLY UNIFIL PRODUCTS. EMBASSY CAIRO COMMENTS THAT IF THE ISRAELIS ARE EXPECTING THE ALMA FIELD OUTPUT, THEY MAY BE DISAPPOINTED BECAUSE ALTHOUGH EGYPTIAN PRODUCTION IS INCREASING, EGYPT WILL NEED ALMA OIL FOR ITS OWN CONSUMPTION. THE EGYPTIANS BELIEVE THE PROBLEM CAN BE SOLVED BY PROVIDING CRUDE FROM OTHER FIELDS OR USING THE ISRAELIS ARE NOT INSISTENT UPON THE TYPE OF CRUDE FROM ALMA.

11. (C) HADDAD-HOSPITALIZED: THE IRAQI NEWS AGENCY JULY 14 REPORTED THAT MAJOR HADDAD, LEADER OF THE CHRISTIAN MILITIA IN SOUTHERN LEBANON, WAS WOUNDED LAST WEEK AND HOSPITALIZED IN ISRAEL. WE HAVE NO INFORMATION TO CONFIRM THE REPORTED WOUNDING BUT ISRAELI MEDIA HAVE SAID THAT HADDAD IS IN A HAIFA HOSPITAL.

16. (C) HADDAD-UNIFIL: CHRISTIAN MILITIA LEADER MAJOR HADDAD JULY 22 REPEATED HIS CLAIMS THAT UNIFIL IS AIDING THE PALESTINIAN GUERRILLAS AND SAID HIS MEN WOULD FIRE ON UNIFIL IF NECESSARY TO PROTECT THEIR POSITIONS. HADDAD'S LATEST REMARKS CONTINUE STEADY CLAIMS BY THE IDF, THE CHRISTIANS AND THE ISRAELI PRESS OF UNIFIL COOPERATION WITH THE GUERRILLAS -- ALL OF WHICH ARE DENIED BY UNIFIL. HADDAD'S COMMENTS SINGLE OUT THE IRISH UNIFIL CONTINGENT WITH WHICH HIS MEN HAD A RECENT CONFRONTATION. HADDAD'S MEN HAVE MOVED INTO A VILLAGE CALLED BAYT YAHUN AND, AS OF YESTERDAY, WERE INSISTING THAT THEY WOULD STAY AND SET UP A CHECK POINT. THIS VILLAGE IS IN THE IRISH UNIFIL TERRITORY. WE ALSO NOTE SEVERAL RECENT STORIES IN THE LIBANESE CHRISTIAN AND ISRAELI MEDIA ABOUT SHIAS INJURED OR MURDERED BY SYRIAN OR PALESTINIAN GUERRILLA UNITS, THIS MAY SIGNAL A RENEWED CONTEST FOR SHIA SYMPATHIES. SHIAS CAN BE FOUND ON BOTH THE ISRAELI/CHRISTIAN AND LEFTIST/MUSLIM SIDES OF THE SOUTHERN LEBANON FIGHTING.

CHRISSOPHER

#1439
1. SAUDI ARABIA-NORTH YEMEN: SAUDI CONCERNS: SAUDI ARABIA'S LEADERS ARE INCREASINGLY APPREHENSIVE ABOUT THE SITUATION IN NORTH YEMEN, ACCORDING TO A CIA ANALYSIS. THEY PROBABLY ARE PICKING UP RUMORS THAT NORTH YEMEN PRESIDENT SALIH IS ABOUT TO STRIKE A DEAL WITH SOUTH YEMEN IN ORDER TO BOLSTER HIS FALTERING DOMESTIC POSITION.

2. SAUDI OFFICIALS URGED THE US LAST WEEKEND TO GIVE RIYADH GREATER CONTROL OVER US ARMS SALES TO NORTH YEMEN BY SHIPPING SPARE PARTS AND AMMUNITION TO SAUDI ARABIA, WHICH WOULD STORE THEM FOR THE NORTH YEMENIS. THE SAUDIS EXPRESSED CONCERN THAT THE WEAPONS ULTIMATELY COULD BE USED AGAINST THEM IF THERE WERE UNFAVORABLE POLITICAL CHANGES IN NORTH YEMEN.

3. THE SAUDI POLICY TOWARD THE NORTH HAS LONG BEEN AMBITIOUS. THE SAUDIS WANT NORTH YEMEN TO BE STRONG
ENOUGH TO DEFEND ITSELF AGAINST THE SOUTH BUT NOT STRONG ENOUGH TO THREATEN THEM. THE SAUDIS ARE SUSPICIOUS ABOUT NORTH YEMEN'S WILLINGNESS TO ENGAGE IN UNIFICATION TALKS WITH THE SOUTH. THE NORTH YEMEN'S FOREIGN MINISTER'S VISITS TO ADEN AND BAGHDAD EARLIER THIS MONTH, AND REPORTS OF RECENT MEETINGS BETWEEN PRESIDENT SALLIH AND EXILES CONTROLLED BY ADEN, HAVE PRESUMABLY HEIGHTENED SAUDI FEARS.

4. SAUDI DEFENSE MINISTER SULTAN—THE CENTRAL FIGURE IN DEFINING HIS GOVERNMENT'S POLICY TOWARD THE YEMENS—MAY COOPERATE WITH DISGRUNTLED NORTH YEMENIS TO OUST SALLIH IF HE CONCLUDES THAT SALLIH IS INDUBITABLY GOING TOO FAR IN APPEASING THE SOUTH.

5. (U) EGYPT—NEW UNSC RESOLUTION: THE JERUSALEM POST REPORTS THAT MINISTER OF STATE BUTRUS HALI IN A PRIVATE BRIEFING GIVEN THE NEWSPAPER BEFORE WINDING UP AUTONOMY TALKS IN HAIFA SAID: "WE WANT A NEW RESOLUTION TO UPDATE 242 NOT REPLACE IT.... ALL EGYPT SEES IS THE ESTABLISHMENT OF A PROVISIONAL PALESTINIAN ENTITY IN THE WEST BANK AND GAZA FOLLOWING WHICH THE PALESTINIANS THEMSELVES WILL NEGOTIATE THEIR RIGHT TO SELF-DETERMINATION." BUTRUS HALI INDICATED THAT THE PRINCIPLES AGREED TO AT CAMP DAVID MUST BE PASSED ON TO THE SECURITY COUNCIL "WITH THE AIM OF DEVELOPING THEM INTO A FORMULA ACCEPTABLE TO ALL THE PARTIES.... WE WOULD LIKE THAT FORMULA SERVE AS A FALLBACK TO US IF THE CURRENT PROCESS FAILS TO PRODUCE RESULTS."

EMBASSY CAIRO REPORTS THAT IN A PRESS BRIEFING GIVEN TRAVELING CORRESPONDENTS ON HIS WAY HOME FROM HAIFA, PRIME MINISTER KHALIL INDICATED THAT A NEW SECURITY COUNCIL RESOLUTION WILL ATTEMPT TO ACHIEVE THE FOLLOWING:

(A) PALESTINIAN RECOGNITION OF ISRAEL'S RIGHT TO EXIST;
(B) INTERNATIONAL RECOGNITION OF PALESTINIAN POLITICAL RIGHTS;
(C) TERMINATION OF ISRAELI AGGRESSION IN LEBANON;
AND
(D) TERMINATION OF PALESTINIAN ATTACKS OR AGGRESSIONS

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INSIDE ISRAEL.

6. (U) EGYPT-AUTONOMY NEGOTIATIONS: CAIRO RADIO REPORTED AUGUST 7 THAT PRIME MINISTER KHALIL CONSIDERED THE RESULTS OF THIS MOST RECENT ROUND OF NEGOTIATIONS AS "POSITIVE." KHALIL, ACCORDING TO THE REPORT, SAID THAT EAST JERUSALEM IS INCLUDED AS AN ELECTORAL CONSTITUENCY AND THAT ELECTIONS WILL BE HELD EITHER UNDER INTERNATIONAL SUPERVISION OR UNDER TRIPARTITE OR QUADRIPARTITE SUPERVISION.

7. (U) ISRAEL-PLO: REUTER REPORTS THAT ISRAEL IN A LETTER TO UN SECRETARY-GENERAL WALDHEIM COMPLAINING ABOUT A PLO-SPONSORED BOMBING IN JERUSALEM ON AUGUST 5 IN WHICH SIX PEOPLE WERE KILLED CALLED THE PLO "A SYNDICATE OF MURDERERS" AND A "TERRORIST INSTRUMENT IN THE HANDS OF CERTAIN ARAB GOVERNMENTS."

8. (U) ISRAEL-TRIAL: TWO PALESTINIAN GUERRILLAS ARE TO FACE TRIAL IN MILITARY COURT ON AUGUST 9 FOR PARTICIPATING IN AN ATTACK ON COASTAL ROAD TRAFFIC MARCH 11, 1978 IN WHICH 34 ISRAELIS WERE KILLED AND 72 WOUNDED. THEY ARE THE FIRST GUERRILLAS TO BE BROUGHT TO TRIAL SINCE THE CABINET DECIDED IN THE WAKE OF THIS SPRING'S ATTACK ON NAHARIYYA TO LIFT THE 30-YEAR OLD INSTRUCTION TO THE ATTORNEY GENERAL NOT TO DEMAND THE DEATH PENALTY.

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9. (C) ISRAEL-US: EMBASSY TEL AVIV REPORTS THAT THE ISRAELI PRESS ATTRIBUTES DAYAN'S BLASTS AT THE US IN THE AUGUST 5 CABINET MEETING AND IN HIS YEDIOT AHARONOT INTERVIEW TO AN ALLEGED QUESTION CONVEYED TO HIM FROM THE SECRETARY CONCERNING THE STATE OF ISRAEL'S ECONOMY. ACCORDING TO ONE KNOWLEDGEABLE KNESSET MEMBER, DAYAN HAD A REPORT FROM AMBASSADOR EYRON WHICH CONVEYED A QUESTION FROM THE SECRETARY ON ISRAEL'S ECONOMY BUT WAS NOT CHARACTERIZED AS AN OFFER OF ASSISTANCE. NEVERTHELESS, THE ISRAELI FOREIGN MINISTRY HAS NOT DENIED A STORY CIRCULATING THAT DAYAN HAD A MESSAGE DIRECTLY FROM THE SECRETARY ON ISRAEL’S ECONOMY.

10. (U) SADAT-ARABS: SADAT IN A MEETING WITH EGYPTIAN JOURNALISTS ON THE EVENING OF AUGUST 6 ACCUSED THE ARABS (AND RIYADH BY NAME) OF TRYING "TO STARVE THE EGYPTIAN PEOPLE." THE EGYPTIAN NEWSPAPER CUMHURIYYA REPORTED THAT SAUDI SECOND DEPUTY PRIME MINISTER AND NATIONAL GUARD COMMANDER ABDALLAH WAS INVOLVED IN A BRIEFERY SCANDAL INVOLVING CONTRACTS FOR THE CONSTRUCTION OF TWO HOSPITALS FOR THE GUARD AND ALLEGED THAT BELGIAN PROSTITUTES WERE BROUGHT INTO SAUDI ARABIA UNDER THE GUISE OF NURSES. ABDALLAH WAS ACCUSED OF BEING THE SAUDI OFFICIAL MOST OPPOSED TO THE TREATY.

THESE ATTACKS CONTINUE THE RENEWED ANTI-SAUDI CAMPAIGN EVIDENT IN SADAT'S SPEECHES AND THE EGYPTIAN PRESS SINCE LATE JULY DESPITE MUBARAK'S PLEDGE TO LOOK INTO THE MATTER. THE SAUDIS HAVE, THUS FAR, NOT RESPONDED TO THIS CAMPAIGN BUT HAVE INDICATED TO US THAT THEIR PATIENCE IS
WEARING THIN.


12. (U) LEBANON-UNIFIL: IN A STATEMENT DEVELOPED TO THE CHAMBER OF DEPUTIES ON THE SECURITY SITUATION IN THE COUNTRY, PRIME MINISTER AL-HUSS ACCUSED ISRAEL THROUGH ITS "AGGRESSIONS" OF TRYING "TO EMBARRASS, HUMILIATE AND DEMORALIZE THE UN FORCES, PROMPTING THEM TO WITHDRAW." VANCE ET

#7645
SAUDI ARABIA: PERCEPTIONS OF THE ARAB-ISRAELI CONFLICT.

A CIA ANALYSIS OF EARLY AUGUST INCLUDES THE FOLLOWING:

THE SAUDIS REGARD THE ARAB-ISRAELI CONFLICT AS A DIRECT THREAT TO THEIR NATIONAL SECURITY. THEY VIEW ARAB, AND ESPECIALLY PALESTINIAN, FRUSTRATION WITH ISRAEL AS A SOURCE OF INSTABILITY IN THE AREA THAT HAS BEEN SUCCESSFULLY EXPLOITED BY RADICAL LEPTISTS AND THE USSR. EGYPT'S PEACE AGREEMENT WITH ISRAEL HAS ONLY SERVED TO INCREASE POLARIZATION IN THE ARAB CAMP AND STRENGTHENED THE ABILITY OF RADICAL STATES LIKE IRAQ TO PLAY A LARGER ROLE IN THE REGION.

THE ARAB-ISRAELI CONFLICT THREATENS RIYADH'S "SPECIAL RELATIONSHIP" WITH THE US. SAUDI FOREIGN POLICY HAS LONG BEEN BASED ON TWO PILIARS—US SECURITY GUARANTEES AND SUPPORT FOR THE LARGEST POSSIBLE MODERATE ARAB ALLIANCE CONSENSUS. CLOSE US TIES TO ISRAEL AND WASHINGTON'S INTIMATE CONNECTION WITH THE CAMP DAVID PEACE AGREEMENTS HAVE FORCED RIYADH TO CHOOSE BETWEEN THESE TWO INTERESTS. THE SAUDIS HAVE REPEATEDLY FELT THEY MUST CHOOSE IN FAVOR OF ARAB CONSENSUS, AND THIS HAS ERODED THEIR RELATIONSHIP WITH THE US.
3. The Saudis are also concerned that they may become directly involved if there is another Arab-Israeli war. While they no longer have any military units in Syria and Jordan as they did in the mid-1970s, the Saudis fear that Israel may strike at Saudi military installations at Tabuk near the Israeli border in the event of another war. Another Arab-Israeli conflict, moreover, would lead to Arab pressure to reimpose a boycott on oil supplies to the US, raising the danger of the complete destruction of the special relationship with Washington.

4. The issue the Saudis are most identified with in the West is Jerusalem. Saudi leaders have long been outspoken advocates of the complete return of East Jerusalem to Arab control. Saudi concern for Jerusalem is genuine and deeply felt. Religious outrage played a major role in the Saudis' initial anger at Egyptian President Sadat's visit to Jerusalem in November 1977.

5. Saudi outspokenness on Jerusalem reflects Riyadh's self-image as the defender of Islamic values and interests. The Saudi monarchy was established as the secular arm of a reformist Islamic movement, the Wahhabis, and remains ideologically close to the Muslim clergy, the Ulema. Any public move that would soften Saudi commitment to the complete return of Arab Jerusalem to Arab control would probably lead to pressure from the Ulema and undermine the legitimacy of the monarchy's claim to rule.

6. Despite their tough public posture, however, there are indications that at least some Saudi leaders recognize there is little likelihood that Israel can be induced to return all of East Jerusalem to Arab control and that the Arabs will have to settle for something less.

7. It is likely that the Saudis would support any settlement of the Jerusalem issue that the Palestinians accept. Only by easing Palestinian frustrations, the Saudis believe, can the threat of radicalism and instability be diminished.

8. Saudi leaders are convinced that bringing the PLO into the peace process would remove the largest Palestin-
IAN ORGANIZATION FROM THE RADICAL CAMP OF THOSE ARABS WHO REJECT SETTLEMENT WITH ISRAEL. THE ONUS FOR ACCEPTING DIFFICULT COMPROMISES WITH ISRAEL WOULD THEREBY BE SHIFTED FROM THE MODERATE ARABS TO THE PALESTINIANS THEMSELVES.


11. GENERAL TO THE SAUDI-PALESTINIAN RELATIONSHIP IS

#4676

12. THE LINKAGE BETWEEN SAUDI ATTITUDES ON THE PEACE PROCESS AND THEIR WILLINGNESS TO SUPPLY OIL TO THE WEST IS SUBTLE AND COMPLEX. THE SAUDIS ARE WELL AWARE THAT MARKET FORCES SINCE 1973 HAVE INCREASED THEIR LEVERAGE OVER THE US AND THAT A FULL-SCALE EMBARGO IS NO LONGER NECESSARY TO APPLY PRESSURE. THE SAUDIS CAN PRESS THE US SIMPLY BY INACTION IN THE FACE OF INCREASED DEMAND, OR BY NOT RESISTING PRESSURES FOR HIGHER PRICES.

13. AT THE SAME TIME, SAUDI OIL POLICY IS INFLUENCED BY ISSUES OTHER THAN THE PEACE PROCESS. THE SAUDI HAVE TO BALANCE THEIR NEED FOR US SECURITY GUARANTEES AND THEIR ECONOMIC RELATIONSHIP WITH THE WEST AGAINST THEIR DESIRE FOR A MORE FORTHCOMING US POLICY ON THE PALESTINIAN ISSUE.

14. THE SAUDIS ARE MORE LIKELY TO USE THEIR OIL LEVERAGE AS AN INDUCEMENT TO THE US TO PROMOTE PROGRESS IN THE PEACE PROCESS THAN AS A THREAT. IN THE MONTHS AHEAD, THE SAUDIS
WILL BE LOOKING FOR INDICATIONS THAT THE CURRENT AUTONOMY
NEGOTIATIONS BETWEEN EGYPT AND ISRAEL CAN ULTIMATELY PROVIDE
THE BASIS FOR SATISFACTORY SETTLEMENT OF THE PALESTINIAN
PROBLEM, BUT RIYADH IS NOT OPTIMISTIC. THE ATTITUDE OF
THE PLO WILL BE CRUCIAL. IF THE PALESTINIANS REJECT THE
OUTCOMES OF THE AUTONOMY NEGOTIATIONS, IT IS HIGHLY UNLIKELY
THAT THE SAUDIS WILL CHANGE THEIR CURRENT STANCE.

(Paragraphs 15-20 Unclassified)

15. ISRAEL-PALESTINIANS: JERUSALEM RADIO REPORTED THAT 15
KNESSET MEMBERS HAVE BEEN INVITED TO PARTICIPATE IN AN
"ISRAELI-PALESTINIAN" CONVENTION WHICH WILL BE HELD IN
SIX WEEKS IN WASHINGTON. THE RADIO'S CORRESPONDENT REPORTED
THAT THE CONFERENCE'S AIM IS TO HAVE ISRAELENS, INCLUDING
MEMBERS OF THE PEACE NOW MOVEMENT, MEET WITH PALESTINIANS
IN THE UNITED STATES. ISRAEL'S EMBASSY IN WASHINGTON IS
REPORTED TO FEAR THAT THE CONVENTION WILL HARM THE WAY
ISRAEL PRESENTS ITS POSITION. THE KNESSET MEMBERS INVITED
TO THE CONFERENCE REPORTEDLY HAVE MADE THEIR PARTICIPATION
CONDITIONAL UPON ASSURANCES THAT THOSE PALESTINIANS
PARTICIPATING WILL NOT BE ORGANIZATIONALLY IDENTIFIED
WITH THE PLO AND THAT AN AGENDA WILL BE AGREED UPON IN
ADVANCE.

NOTE: THOSE INVITED ARE MEMBERS OF THE RULING COALITION'S
NATIONAL RELIGIOUS PARTY; ADBA EIBAN AND YOSSI SARIID FROM
THE ALIGNMENT; SHULAMIT ALONI FROM THE CITIZENS RIGHTS
MOVEMENT; SHMUEL TOLEDANO FROM SHA'Y (WHICH BOLTED FROM
BRIN'S DEMOCRATIC MOVEMENT FOR CHANGE); AND MEIR PAIL
FROM THE DOVISH SHIKLI PARTY.

16. ISRAEL-US-PLO: JERUSALEM RADIO REPORTED AUGUST 15
THAT BEGIN WILL RAISE AMBASSADOR YOUNG'S MEETING WITH THE
PLO OFFICIAL IN HIS TALKS WITH AMBASSADOR STRAUSS THIS
WEEK. IN AN EDITORIAL, YEDIDAH AHARANOT SAID THAT "SOME-
ONE" IN WASHINGTON IS MAKING EFFORTS TO BRING THE PLO DOWN
IN THE US. HATZOOF UPGRUES THE ISRAELI GOVERNMENT TO MAKE
SURE THAT IT WILL NOT BE HAPPY WITH "MERELY REPEATED"
STATEMENTS ABOUT POLICY ON THE PLO. DEPUTY PRIME
MINISTER YADIN, LEAVING FOR WHAT JERUSALEM RADIO CALLED

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"A US INFORMATION CAMPAIGN," SAID AMBASSADOR YOUNG'S MEETING CONSTITUTES "A CLEAR DEVIATION" OF US POLICY.

17. ISRAEL-BOMBING INCIDENT: TEL AVIV RADIO REPORTED THAT TWO PEOPLE WERE WOUNDED AUGUST 15 WHEN A BOMB EXPLODED AT AN INTERSECTION NEAR NETANYA. ANOTHER INDIVIDUAL WAS WOUNDED WHEN A BOMB WENT OFF IN A TEL AVIV SUBURB.


19. PLO-US: ACCORDING TO AGENCE FRANCE PRESSSE, THE PLO'S UN REPRESENTATIVE TERZI TOLD THE LEONANESE DAILY AL-NAHAR THAT HIS MEETING WITH AMBASSADOR YOUNG DID NOT CENTER ON "THE ROOTS OF THE PROBLEM." TERZI ADDED THAT "THE BASIS OF THE PROBLEM WAS NOT EXAMINED.... I WAS SURPRISED BY REPORTS ABOUT THIS AFFAIR. THEY ARE FOUND ON ERRONEOUS GROUNDS...."

Diplomatic missions, and will be able to fly the Palestinian flag. The two sides agreed upon principles of mutual respect and non-interference in each other's internal affairs.

1. (C) Saudi Arabia—Petroleum Policy: A Saudi official in the oil ministry has told an officer of US consulate general Dhaifan that Aramco had reached its target of 405 million barrels per day. He said the current level of production would continue "until the market is ready for reduction".

Meanwhile, according to Reuters, Shykh Yamani accused the industrialized countries of "price gouging" for their goods and services. He praised, however, President Carter's energy program but added that "oil circles will be watching carefully how far the congress cooperates with President Carter in applying the program."

2. (U) Middle East—Ceaucescu: Romanian President Ceaucescu said during his visit to Syria that Middle East peace cannot be achieved without setting up an independent Palestinian state. He said new initiatives were required to provide for participation in the negotiations of all concerned—Arab countries and the PLO.

3. (U) Syria—Iran: The Syrian foreign minister met Khomeini in Iran August 15 and the Ayatollah called for Muslim unity. Syrian-Iranian relations have been strained and this visit is probably an effort to improve ties and possibly to set the stage for a visit by the Syrian president.
E.O. 12065 GIS - 8/29/85 (COOPER, RICHARD)

TAGS: ENRG, SA, US

SUBJECT: YAMANI VIEWS ON FUTURE ENERGY SITUATION

1. IN EXTENDED DISCUSSION WITH UNDER SECRETARY COOPER AUGUST 28, SAUDI OIL MINISTER YAMANI SKETCHED FOLLOWING PROGNOSIS.

2. YAMANI PORESAW SOME SURPLUS OVER REST OF YEAR PERMITTING BUILDING OF OIL STOCKS AND CONTINUED DOWNWARD PRESSURE ON SPOT PRICES. ASSUMING RECESSION IN OECD COUNTRIES AND RESULTANT DEMAND RESTRAINT IN 1980, HE FORESAW A COMPREHENSIVE CRUDE OIL SURPLUS IN WHICH INCREASED NORTH SEA AND MEXICAN PRODUCTION WOULD CAUSE DROP IN DEMAND FOR OPEC OIL. SINCE SOME OPEC PRODUCERS NEED TO PRODUCE AT FULL CAPACITY FOR DEVELOPMENT REASONS, HE FORESAW POSSIBILITY OF MOVEMENT TOWARD OPEC PRICE UNITY. (THROUGHOUT HIS COMMENTS YAMANI STUDIously AVOIDED COMMENT ON SAUDI PRO-
UCTION PLANS.)

3. YAMANI EXPRESSED GREAT CONCERN ABOUT 1981-85 PERIOD. HE SAW LITTLE PROSPECT FOR INCREASED OPEC PRODUCTION OVER THAT PERIOD. HE NOTED THAT OPEC COUNTRIES WITH PRESSING INCOME NEEDS SUCH AS INDONESIA AND NIGERIA ARE FACING SIGNIFICANT TECHNICAL PROBLEMS IN INCREASING PRODUCTION. KUWAIT WANTS TO CUT PRODUCTION TO AROUND 1.6 MBPD. "OTHERS" WANT TO RESTRAIN PRODUCTION. IN THIS PERIOD, HOWEVER, OECD COUNTRIES WILL BE UNDER GREAT PRESSURE IN THE FACE OF HIGH UNEMPLOYMENT TO EXPAND ECONOMIES. EVEN A TWO PERCENT GROWTH IN OECD ENERGY DEMAND WILL CAUSE SERIOUS PRESSURES. THE EASY STEPS IN ENERGY CONSERVATION AND DEVELOPMENT OF ALTERNATIVE SOURCES WILL HAVE BEEN MADE AND REALLY SIGNIFICANT DIVERSIFICATION OF ENERGY SOURCES WILL NOT BE POSSIBLE UNTIL 1985 AND BEYOND. YAMANI DID OBSERVE, HOWEVER, THAT IF THE TOKYO SUMMIT TARGETS WERE MET, WE MIGHT BE ABLE TO MANAGE THE PERIOD TO 1985 WITHOUT UNDUE PRESSURE ON THE MARKET.

4. YAMANI STRESSED THAT THIS ASSESSMENT WAS BASED ON THE "VERY BIG IF" THAT PRESENT CONDITIONS IN OPEC PRODUCING COUNTRIES REMAIN THE SAME AND SPECIFICALLY THAT IRANIAN PRODUCTION WOULD NOT FURTHER DECLINE. IN THIS REGARD HE EXPRESSED SERIOUS CONCERN ABOUT IRAN'S ABILITY TO SUSTAIN PRODUCTION WITHOUT SIGNIFICANT OUTSIDE HELP, AND WAS SKEPTICAL THAT PRESENT 400,000 B/D DROP IN IRANIAN PRODUCTION WAS INDEED RELATED TO WEATHER CONDITIONS IN PERSIAN GULF.

5. YAMANI EMPHASIZED THAT IN THIS DIFFICULT 1981-85 SITUATION IT IS ESSENTIAL THAT THE REAL PRICE OF OIL CONTINUE TO RISE, GRADUALLY AND IN CAREFULLY MODULATED MANNER. THIS IS ESSENTIAL TO RESTRAIN DEMAND, TO PREVENT SERIOUS SUPPLY GAPS AND TO PROVIDE THE ECONOMIC INCENTIVES FOR THE DEVELOPMENT OF ALTERNATE SOURCES OF ENERGY.

6. IN HIS PRESENTATION YAMANI STRESSED THE ASSUMPTION THAT BY MID-1980 US AND OTHER MAJOR CONSUMERS MUST MOVE AWAY FROM OIL DEPENDENT ECONOMIES TOWARD DIVERSIFIED ENERGY SOURCES. HE EXPRESSED GREAT INTEREST IN
PRESIDENT'S ENERGY PROGRAM INCLUDING STATUS OF WINDFALL PROFITS TAX AND RELATED ENERGY FUND ALLOCATIONS.

7. IN COURSE OF DISCUSSIONS UNDER SECRETARY COOPER NOTED IMPORTANCE OF SOVIET OIL DEVELOPMENTS ON INTERNATIONAL MARKET. INDICATING OUR BELIEF THAT SOVIET CONSUMPTION IS GROWING FASTER THAN PRODUCTION AND THAT THERE ARE ESTIMATES THAT THE GAP MAY REACH 1-3 MBPD, WITH THE SOVIETS BECOMING AN OIL IMPORTER AT THE HIGHER FIGURE. VANCE
USINFO

E.O. 12065 N/A

USICA FOR PAO FROM PGM/PPN

FOLLOWING IS A PRESS RELEASE FROM THE OFFICE OF CONGRESSMAN LES ASPIN, DATED SEPTEMBER 4:

(BEGIN TEXT)

ASPIN SAYS SAUDIS GOBBLE UP MILITARY PURCHASES

WASHINGTON, D.C.—SAUDI ARABIA HAS SIGNED UP FOR WELL OVER HALF OF EVERYTHING SOLD UNDER THE FOREIGN MILITARY SALES
Program since the fall of the Shah, Rep. Les Aspin (D-Wis.) revealed today.

"Saudi Arabia is buying 11 times as much as the second largest military customer, Aspin said.

"Since the Shah fell last February, the Pentagon has signed contracts to sell 6.3 billion dollars in goods and services under the Foreign Military Sales Program." Aspin said. "Of that total, Saudi Arabia has signed for 3.7 billion dollars or 58 percent of the entire worldwide pot."

In the six years before the Shah's fall, Iran led the list of the Pentagon's customers in three years and Saudi Arabia in the other three. But Aspin noted that no country has ever before bought more than half of everything sold under FMS in a single year.

Aspin said, "two things are disturbing about these numbers.

"First, many people had been concerned for years that the Saudi expansion program was largely a counter to the Iranian expansion since the Saudis couldn't very well let themselves be outclassed in their own backyard. Under that interpretation, the Saudi rate of purchases should not be waning--but it's not.

"Second, given the strong Saudi reaction against the Camp David accords, the continuing Saudi buildup is certain to fuel fears that Riyadh has Israel in its sights."

Aspin's figures on arms sales since the Iranian Revolution were derived by subtracting the figures shown on the computer printout for sales as of August 16 from the printout for sales as of February 22, shortly after the Shah's regime fell. The computer printouts were supplied by the Defense Security Assistance Agency.

In that same time period, Israel ranked fourth on the list of arms buyers. Iran bought nothing.

Aspin said, the massiveness of the Saudi contracts became even more evident when you notice that the second largest buyer since the Shah's fall has been a NATO agency that signed for only 5 percent of the total. Saudi Arabia bought 11 times as much as the number two buyer."

Aspin said, "it should be remembered that many of these military programs are a long time in preparation. Thus, there may be an element of momentum involved in some of
SECRET DHAHRAN 1466

SF 12065: GDS 9/15/85 (LINDSTROM, RALPH E.) OR-M

TAGS: MILIT, PEPR, SA, BA

SUBJECT: SAG REPORTEDLY SENDS NATIONAL GUARDSMEN TO BAHRAIN

1. (S-E ENTIRE TEXT)

2. SAUDI BUSINESSMAN IN PRESENCE OF POLICE OFFICIAL TOLD CONSOFF SEPTEMBER 14 THAT SAG HAS SENT 500 NATIONAL GUARDSMEN TO BAHRAIN TO HELP GOB MAINTAIN ORDER IN FACE OF SHI'S UNREST.

3. WHEN CONSOFF ASKED WHETHER SIG WAS CONCERNED OVER SHI'S AS IN SAUDI ARABIA'S EASTERN PROVINCE, HIS QUERY WAS DISMISSED WITH SUSTOARY SAUDI ESTABLISHMENT DISDAIN FOR THIS MINORITY.

4. DOES EMBASSY MANAMA HAVE ANY CONFIRMATION OF THIS REPORT? LINDSTROM

MT

#1466
PP RQGMFR
DE RQGMFR #1831 2590930
ZNY SSSSS ZZH
P 160915Z SEP 79
FM AMEMBASSY MANAMA
TO RUEHC/SECSTATE WASHDC PRIORITY 7882
INFO RQMBL/AMEMBASSY ABU DHABI 1729
RUEHAD/USINT BAGHDAD 301
RQMDH/AMCONSUL DHAHRAN PRIORITY 1126
RQMD/AMEMBASSY DOHA 1472
RQMDA/AMEMBASSY JIDDA PRIORITY 1110
RQMKW/AMEMBASSY KUWAIT 3228
RQMYA/USLO RIYADH 166
RQMEH/AMEMBASSY TEHRAN 1304
BT
S E C R E T MANAMA 1851

E.O. 12065: ODS 9/16/85 (PELLETREAU, ROBERT H.) OR-M
TAGS: MILI, PEPR, SA, BA
SUBJ: (S) SAG REPORTEDLY SENDS NATIONAL GUARDSMEN TO BAHRAIN

REF: DHAHRAN 1466

1. (S) NEITHER WE NOR BRITISH EMBASSY HAVE RECEIVED ANY
CONFIRMATION OF SAG NATIONAL GUARDSMEN ACTUALLY BEING
SENT TO BAHRAIN, DURING DEMONSTRATIONS AT THE END OF
AUGUST, RUMORS WERE STRONG THAT UP TO TWO THOUSAND
SAUDI POLICE HAD ARRIVED TO ASSIST IN CONTAINING SITUATION
BUT NO TRACE OF THEM EVER APPEARED.

2. (S) COMMENT: WHILE SAUDIS HAVE AN OBVIOUS INTEREST
IN BAHRAINI STABILITY AND IN PREVENTING ANY OVERFLOW
OF SHIA UNREST INTO THE EASTERN PROVINCE, IN OUR VIEW
GOD WOULD BE EXTREMELY RELUCTANT TO REQUEST SAUDI HELP
TO KEEP ITS HOUSE IN ORDER UNLESS IN EXTREMIS. THAT
IS CLEARLY NOT THE CASE.

PELLETREAU

BT
#1831

NNNN

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DE RQMR  #6654  2630555
ZNY  COCC  ZZH
R  2005332 SEP 79
FM AMEMBASSY JIDDA
TO RUEHC/SECSTATE WASHDC 7411
INFO RQMRW/AMEMBASSY KUWAIT 4321
RQMTI/AMEMBASSY TRIPOLI 1060
RUEHAD/USINT BAGHDAD 3283
RQMBL/AMEMBASSY ABU DHABI 1769
RUFHRS/AMEMBASSY ALGIERS 7134
RQMOD/AMEMBASSY DOHA 764
RQMHR/AMEMBASSY TEHRAN 2773
RUESRS/AMEMBASSY CARACAS 219
RUEHOS/AMEMBASSY LAGOS 241
RUKOBT/AMEMBASSY JAKARTA 261
RUFHLC/AMEMBASSY LOBNEVILLE 56
RUESQI/AMEMBASSY QUITO 81
RQMDH/AMCONSUL DHAHRAN 2940
PT
CONFIDENTIAL JIDDA 6634

DEPARTMENT PLEASE PASS TO OECD CPITALS, USOECD, AND USEC.

E.O. 12065: GDS 9/39/79 (MEYERS D P) OR-E
TAGS: ENRG OPEC
SUBJ: CRUDE OIL SPOT MARKET SALES

1. (C ENTIRE TEXT.)

2. FOLLOWING IS TEXT OF DHAHRAN 1461 WHICH IS
REPEATED FOR INFO ADDRESSEE'S INFORMATION.

3. ON SEPT 11, ECON OFFICER PAID A FAREWELL CALL ON
ACTING DEPUTY MINISTER OF PETROLEUM KHADER HERSOLLAH
ACCOMPANIED BY EMBASSY PETROLEUM REPORTING OFFICER.
IN THE COURSE OF THIS MEETING, USING TALKING POINTS
PROVIDED REF, WE RAISED THE USG'S CONCERN WITH
INCREASING SPOT MARKET CRUDE PRICES AND TOLD HERSOLLAH THAT CU
AMBASSADORS IN OTHER OPEC CAPITALS HAD BEEN INSTRUCTED
TO RAISE THIS QUESTION WITH THEIR HOST.
GOVERNMENTS. WE POINTED OUT THAT THIS WAS NOT BEING
RAISED IN SAUDI ARABIA SINCE WE WERE AWARE THAT ALL SAUDI CRUDE
BEING MARKETED BY ARAMCO AND PETROMIN WAS SOLD ON A CONTRACT BASIS.
HOWEVER, WE FELT THE MINISTRY SHOULD BE AWARE OF THIS APPROACH TO
THE OTHER OPEC GOVERNMENTS.

4. HERSOLLAH COMMENTED THAT THE MAJOR CULPRITS WERE THE
OTHER GULF STATES, ESPECIALLY IRAQ, BUT INCLUDING IRAN,
KUWAIT, QATAR, AND POSSIBLY THE USE.
HE COULD NOT OR WOULD NOT SAY WHAT VOLUMES WERE GOING INTO THE
SPOT MARKET. HE SAID THAT THE RISE IN SPOT PRICES COULD HAVE
BEEN ANTICIPATED FOR TWO REASONS, FIRST, IMMEDIATELY AFTER THE
OPEC CONFERENCE EACH MEMBER TRIES TO DEMONSTRATE THAT IT IS FOLLOW-
ING THE GENTLEMEN'S AGREEMENT REACHED THERE. HOWEVER, OVER TIME
"FIRST ONE TANKER LOAD, THEN TWO" BEGINS TO FIND THEIR WAY INTO
THE SPOT MARKET.

5. HERSOLLAH, HOWEVER, ALSO PLACED SOME OF THE BLAME ON
WESTERN OIL COMPANIES, WHICH, HE SAID, WERE BEGINNING TO
STOCKPILE IN ANTICIPATION OF ANOTHER OPEC PRICE INCREASE.
HE ASKED IF WE WERE DISCUSSING THIS PROBLEM WITH CONSUMING
GOVERNMENTS AS WELL. WE RESPONDED THAT WE HAD BEEN AND WOULD BE
IN TOUCH WITH THEM.

6. HERSOLLAH SAID THAT HE WOULD SEND A NOTE TO OIL
MINISTER YAMNI OUTLINING WHAT HE HAD BEEN TOLD.

7. WHEN ASKED ABOUT RUMORS OF A SPECIAL OPEC CONFERENCE THIS
FALL, HERSOLLAH REITERATED THAT SAUDI ARABIA WAS OPPOSED TO ANY
CONFERENCE BEFORE DECEMBER. HE SAID THAT OIL MINISTER YAMNI
HAD TOLD OPEC STATES IF SUCH A CONFERENCE WAS CALLED HE WOULD
NOT ATTEND.

8. IN RESPONSE TO ANOTHER QUESTION, HERSOLLAH SAID THAT ARAMCO
PRODUCTION CONTINUED TO AVERAGE 9.5 MILLION B/D,
OF THIS AMOUNT APPROX 9 MILLION B/D WAS EXPORTED IN THE FORM
OF CRUDE AND VIRTUALLY ALL THE REST WAS REFINED FOR LOCAL CONSUMPT-
ION.

9. HERSOLLAH SHARED SPECIAL INTEREST IN THE OUTCOME OF THE
LAM-OPEC LAWSUIT AND ASKED TO BE PROVIDED WITH A TEXT OF THE
FULL DECISION WHEN IT BECOMES AVAILABLE. HE WAS ESPECIALLY INTERESTED TO KNOW IF ANY OPEC COUNTRIES HAD BEEN REPRESENTED BEFORE THE COURT AND WHAT HAD BEEN THE ROLE OF AMERICAN GROUPS WHO APPEARED IN THE ROLE OF "AMICUS CURiae". HERZOLLAH, WHO IS OF PALESTINIAN ORIGIN, COMMENTED THAT THERE APPEARS TO BE A GROWING UNDERSTANDING BY AT LEAST SOME ON THE UNITED STATES OF ITS OWN INTERESTS IN THE ARAB WORLD, NOT LEAST OF WHICH IS OIL. WEST
E.O. 12065: GDS 9/19/85 (BOVSE H EUINE) OR-P
TAGS: FINE FINT EG SA
SUBJ: (U) SAUDI ARABIA DEFENDS ITS ISLAMIC PURITY

1. (U) SEPTEMBER 19 ARABIC LANGUAGE AL MADINA EDITORIAL CITES "EGYPTIAN PRESS CLAIMS" (NO FURTHER ELABORATION) THAT AN EXTREMIST RELIGIOUS MOVEMENT HAS APPEARED IN SAUDI ARABIA. COMMENTING ON REPORT, AL MADINA STATES NO OTHER COUNTRY HAS DONE BETTER THAN SAUDI ARABIA IN PRESERVING ITS RELIGIOUS INTEGRITY OR IN PROPAGATING ISLAM. EGYPTIAN RULERS THEMSELVES DO NOT OBSERVE STRICT RULES OF ISLAM, AND EVEN IRAN IS NOT 100 PERCENT ISLAMIC, LIKE SAUDI ARABIA. EGYPTIAN PRESS SHOULD CEASE MAKING SUCH CLAIMS.

2. (C) COMMENT: RELIGIOUS ISSUE IS VERY SENSITIVE FOR SAUDIS, ESPECIALLY FOLLOWING EVENTS IN IRAN. REACTION HERE TO EGYPTIAN CIRES ON RELIGIOUS ISSUE IS STRONGER AND QUICKER THAN TO SADAT OR CAIRO PRESS STATEMENTS ABOUT SAUDI POLITICAL PERIOD OR EVEN CORRUPTION. THIS IS FIRST KNOWN INSTANCE OF SAUDI'S TELLING EGYPTIANS TO SIT UP IN THE LATEST ROUND OF SAUDI-EGYPTIAN BICKERING. END COMMENT.

3. (C) FOR CAIRO: WOULD APPRECIATE FURTHER INFORMATION ON EGYPTIAN PRESS REPORTS ABOUT RELIGIOUS EXTREMISTS AND/OR OPPOSITION IN SAUDI ARABIA. WEST

#6652
1. ACTING DEPUTY MINISTER OF PETROLEUM KHADER HERZOLLAH CONFIRMED TO ME DURING SEPTEMBER 24 CALL AT EASTERN PROVINCE MINISTRY OFFICE THAT HE HAD NOT RECEIVED AN ORDER FROM MINISTER OF PETROLEUM YAMANI TO CUT BACK ARAMCO PRODUCTION NEXT MONTH TO REGULAR 8.5 MILLION B/D PRODUCTION CEILING. IN ABSENCE OF SUCH AN ORDER, HE SAID THERE WAS NO REASON TO ASK ARAMCO TO PRODUCE AT LESS THAN PRESENT TEMPORARY CEILING OF 9.5 MILLION B/D.

COMMENT: WHILE HERZOLLAH DID NOT EXPLICITLY STATE THAT TEMPORARY CEILING WOULD BE EXTENDED THROUGH FULL
FOURTH QUARTER, IT WAS CLEAR FROM TONE AND SUBSTANCE OF HIS DISCUSSIONS OF PRICES THAT HE IS CONFIDENT IT WILL.

3. DESPITE APPARENT ASSUMPTION OF CONTINUED ARAMCO PRODUCTION AT CURRENT LEVELS, HERZOLLAH IS WORRIED THAT A GENERALIZED OPEC PRICE INCREASE MAY NOT BE AVOIDABLE IN DECEMBER OPEC MEETING. HE POINTED OUT THAT AT LEAST 10 PERCENT OF OPEC OIL (PARTICULARLY FROM IRAQ, KUWAIT, IRAN, DUBAI, NIGERIA) AND “PERHAPS MORE WE DON’T KNOW ABOUT FROM LIBYA” IS BEING MARKETED AT HIGHER THAN OPEC RATES AND IN MANY CASES AT SPOT MARKET PRICES. HOW, HE ASKED, CAN WE ARGUE WITH IRAQI’S AT DECEMBER OPEC MEETING THAT SUPPLY/DEMAND CONDITIONS DO NOT JUSTIFY A GENERAL OPEC PRICE INCREASE WHEN THEY WILL SHOW US INVOICES DOCUMENTING SALES TO EXXON AND OTHER LARGE OIL COMPANIES AT SPOT MARKET PRICES? MUCH WILL DEPEND, OF COURSE, ON MAINTENANCE OF CURRENT DELICATE BALANCE BETWEEN SUPPLY AND DEMAND. "IF, FOR EXAMPLE, GOD DECIDES ON AN EARLY OR HARSH WINTER IN EITHER EUROPE OR THE U.S...,” HERZOLLAH BELIEVES THAT IT WILL BE VIRTUALLY IMPOSSIBLE TO AVOID ANOTHER SIGNIFICANT OPEC PRICE INCREASE IN DECEMBER, ALTHOUGH SAUDI ARABIA WILL CONTINUE TO DO ITS BEST TO HOLD THE PRICE LINE IN ORDER TO AVOID FURTHER DAMAGE TO THE WORLD ECONOMY.

4. BACKGROUND NOTE: HERZOLLAH IS YAMANI’S TOP ADVISER ON OPEC MATTERS AND ACCOMPAINES HIM TO ALL MAJOR OPEC MEETINGS.
LINDSTROM
ET
#1520
1. (C - ENTIRE TEXT).

MFA DIRECTOR FOR ARAB AFFAIRS ISMAIL AL-SHURA TOLD POL.
COUNSELOR ON SEPTEMBER 25 THAT OMANI FOREIGN UNDER SECRETARY
YSUF AL-ALAWI HAD MADE UNREPORTED VISIT TO SAUDI
ARABIA ON SEPTEMBER 20 TO DISCUSS GULF SECURITY. ALAWI
SAID THAT OMAN THOUGHT THAT SECURITY OF GULF AND STRAITS
OF HORMUZ REQUIRED COOPERATIVE EFFORT OF OMAN, SAUDIA
ARABIA, AND LOWER GULF STATES, WITH THE SUPPORT OF SUCH
WESTERN POWERS AS THE U.S., UK, AND WEST GERMANY. HE
PRESENTED SECURITY SURVEY OF STRAITS OF HORMUZ WHICH
SHOWED THAT MOST SERIOUS THREAT TO STRAITS WAS FROM
MINING. HE ASKED SAUDI ARABIA TO PROVIDE MINESWEEPER.

PRINCE SAUD SAID THAT SAUDI ARABIA PREFERRED COOPERA-
TIVE EFFORT AMONG GULF STATES FOR GULF SECURITY.
INCLUSION OF OUTSIDE POWERS IN THE ARRANGEMENT WOULD
ONLY COMPLICATE THINGS IN THE ARAB WORLD AND INVITE
CRITICISM OF OTHER ARAB STATES. HE SAID THAT SAG
WOULD STUDY SECURITY SURVEY AND CONSIDER OMANI REQUEST
FOR MINESWEEPER.

ALAWI SAID 'COOPERATION WITH SAUDI ARABIA, BAHRAIN,
UAE, QATAR, AND POSSIBLY KUWAIT WAS DESIRABLE. HE
MIGHT NOT THINK IT POSSIBLE OR DESIRABLE TO GET
COOPERATION FROM IRAN AT THE MOMENT. IRAQ WOULD ONLY
BE OBSTREPEROUS.'
1. (U) NEWSPAPERS TODAY CARRIED TERSE ANNOUNCEMENT BY INFORMATION MINISTER ABDU YAMANI DENYING FOREIGN PRESS REPORTS THAT SAUDI ARABIA HAD DECIDED TO END SURPLUS OIL PRODUCTION END OF THIS QUARTER. YAMANI CHARACTERIZED REPORTS AS ABSOLUTELY UNFOUNDED AND STATED THAT NO DECISION HAD YET BEEN MADE IN THIS REGARD.

2. (C) THIS IS NOT QUITE A CONTRADICTION OF THE STATEMENT OF FOREIGN MINISTER PRINCE SA'UD PUBLISHED IN WALL STREET JOURNAL OF 5 OCT THAT SAUDI ARABIA DOES NOT PLAN TO CONTINUE PRODUCING EXTRA OIL BEYOND JAN 1. THE USE OF A PUBLIC OFFICIAL STATEMENT DOES ILLUSTRATE HOW TIGHTLY CROWN PRINCE FAHD WISHES TO RESERVE OIL PRICING AND PRODUCTION DECISIONS TO HIMSELF. SEE SEPT 74 WEST BT #7874
SECRET SECTION I OF 3 JIDDA 7096

EXDIS

E.O. 12065; RDS 10/8/99 (WEST, JOHN C.) OR-M
TAGS: PEPV, SA, US
SUBJECT: (S) MEETING WITH CROWN PRINCE FAHD - OCTOBER 2

REF: (A) JIDDA 6979, (B) JIDDA 6977

1. (S - ENTIRE TEXT).

2. SUMMARY SENT REF (A).

3. AMBASSADOR WEST, ACCOMPANIED BY AMBASSADOR FREDERIC CHAPIN, VISITING JIDDA FROM ADDIS ABABA, AND SPECIAL COUNSELOR ISA SABBAGH, CALLED ON CROWN PRINCE FAHD OCT 2 AT 22h30 IN FAHD'S JIDDA OFFICE.

4 ETHIOPIA:

THE CROWN PRINCE WELCOMED AMBASSADOR CHAPIN AND ASKED FOR A BRIEFING ON THE LATEST SITUATION IN ETHIOPIA. HE WAS PARTICULARLY INTERESTED IN THE DEGREE OF POPULAR SUPPORT ENJOYED BY THE MENIGSTU REGIME. AMBASSADOR CHAPIN HIGHLIGHTED RECENT DEVELOPMENTS IN ETHIOPIA, EMBRASIZING HOW HAILE SELASSIE'S APPEARANCE OF SEEMING INDIFFERENCE TO MANY OF THE COUNTRY'S PROBLEMS PAVED THE WAY FOR A COMMUNIST TAKEOVER. THE CURRENT REGIME SEEMED TO ENJOY SOME SUPPORT IN THE SOUTH WHERE LAND REFORMS HAD ATTRACTION THE PEASANTS, BUT IN THE CENTER AND THE NORTH THE MENIGSTU REGIME HAD LITTLE SUPPORT, ESPECIALLY AMONG THE MIDDLE-CLASS AND INTELLECTUALS.
FAHD SAID HIS INTEREST IN ETHIOPIA WAS NOT PURELY ACADEMIC; RATHER IT WAS BASED ON THE HORN OF AFRICA'S PROXIMITY TO THE ARABIAN PENINSULA AND THE REPERCUSSIONS OF THE ETHIOPIAN-SOMALI-ERITREAN-SUDANESE POLITICAL SCENE ON DEVELOPMENTS IN SAUDI ARABIA AND THE GULF AREA. FAHD REVIEWED THE RECENT HISTORY OF DEVELOPMENTS IN ETHIOPIA FROM A SAUDI PERSPECTIVE. HE SAID THAT THE EMPEROR HAD MADE MISTAKES OF COMMISSION AND OMISSION, BUT COULD HAVE BEEN PERSUADED BY THOSE WHO WERE HIS BENEFAC'TORS TO CORRECT THE SITUATION, ESPECIALLY THE SEVERE CONDITIONS RESULTING FROM THE DEVASTING DROUGHTS.

6. THE CROWN PRINCE RELATED HOW PRIOR TO THE EMPEROR'S DOWNFALL, HE (FAHD) HAD DISCUSSED HAILE SELASSIE'S PROBLEMS WITH THEN PRESIDENT NIXON AND SECRETARY ROGERS. THEY HAD ASKED IF SAUDI ARABIA COULD BE HELPFUL FINANCIALLY, BUT SAUDI ARABIA COULD NOT APPEAR TO BE HELPFUL IN VIEW OF ETHIOPIA'S CAMPAIGN AGAINST THE ERITREANS. UNFORTUNATELY THE WEST AND THE U.S. ALSO DID NOTHING, LEAVING AN OPEN PATH FOR THE SOVIETS AND THEIR ALLIES TO MOVE IN WITH THEIR CUBAN SURROGATES. FAHD ALSO QUERIED AS TO THE RESULT OF PRESIDENT CARTER'S PROMISE TO BE HELPFUL IN SOLVING THE OGADEEN SITUATION. FAHD RECALLED HOW IN 1978, AT PRESIDENT CARTER'S SUGGESTION, HE HAD PERSUADED SIAD BARRE TO ANNOUNCE PUBLICLY HIS ACCEPTANCE OF A UN PLEBISCITE FOR OGADEEN'S PEOPLE. ALTHOUGH BARRE DID ANNOUNCE HIS WILLINGNESS TO ACCEPT THE RESULTS OF A UN REFERENDUM, THE U.S. SEEMS TO HAVE LOST INTEREST IN SOMALIA. FAHD FEARED THAT, THROUGH NEGLECT, THE U.S. MIGHT LOSE SOMALIA BY DEFAULT.

7. IRAN AND THE COMMUNIST THREAT:
CROWN PRINCE FAHD SAID DEVELOPMENTS IN IRAN, AS THOSE IN ETHIOPIA, COULD BE SEEN AS AN EXAMPLE OF U.S. SEEMING INDIFFERENCE OR IMPOTENCE. "INSTEAD OF PRESSURING THE SHAH INTO BRINGING HIS THOUGHTS AND ACTIONS UP TO DATE SO AS TO PULL THE RUG FROM UNDER THE COMMUNIST AGITATORS YOU LET HIM GO." "KHOMEINI IN OUR PENSION," CONTINUED FAHD, "IS A TOOL, ALTHOUGH HE MAY NOT KNOW IT OR ADMIT IT. THE COMMUNISTS ARE PURSUING THEIR DESIGNS METHODICALLY. FIRST THEY WANTED TO BRING FORTH THE STREET RESISTANCE, THEN THE INTELLECTUAL PATRIOTS, IN ORDER TO DEAL WITH THEM CONSECUTIVELY AND MORE EFFECTIVELY. LOOK AT WHAT HAS HAPPENED IN IRAN. WHY, THEY HAVE KILLED THE CREAM OF THEIR SOCIETY -- THE BEST BRAINS IN THE MILITARY, THE PROFESSIONS, AND THE CIVIL SERVICE HAVE ALL BEEN EXECUTED OR FORCED INTO EXILE. THESE ACTS OF SAVAGE SLAUGHTER HAVE NO CONNECTION TO ISLAM WHOSE FALE IS BEING ARTIFICIALLY FLUTTERED IN IRAN."
EXDIS

8. CUBA AND THE U.S. RESPONSE TO SOVIET INCURSIONS:
IN RESPONSE TO THE CROWN PRINCE'S HOUR-DOONG DISCOURSE,
AMBASSADOR WEST STRESSED THAT THE U.S. HAD IN FACT TAKEN
A STRONG STANCE TO COUNTER SOVIET THREATS. AS AN EXAMPLE,
THE AMBASSADOR NOTED THAT THE EMBASSY HAD DELIVERED EARLIER
IN THE DAY A COPY OF PRESIDENT CARTER'S SPEECH ON SOVIET COM-
BAT TROOPS IN CUBA. THE PRESIDENT HAD WANTED US TO SHARE
AN ADVANCE COPY WITH PRINCE FAHDI PRIOR TO ITS DELIVERY BUT WE
AND BEEN UNABLE TO DO SO BECAUSE OF THE CROWN PRINCE'S BUSY
SCHEDULE. FAHDI, IN RESPONSE, ACKNOWLEDGED THAT THE PRESIDENT'S
SPEECH ON CUBA WAS THE TYPE OF RESPONSE TO SOVIET ADVENTURISM
THAT SAUDI ARABIA APPRECIATED. THE AMBASSADOR CONTINUED THAT
THERE WERE MANY WHO WERE ATTEMPTING TO SOW THE SEEDS OF DIS-
TRUST BETWEEN THE U.S. AND SAUDI ARABIA; THERE WERE THOSE WHO
INSINUATED THAT THE U.S. WAS NOT WILLING TO COME TO THE AID OF
ITS ALLIES AND FRIENDS. BUT IT WAS IMPORTANT TO REMEMBER THAT
WHEN SAUDI ARABIA FELT THREATENED BY SOUTH YEMEN'S INVASION
OF NORTH YEMEN, THE U.S. RESPONDED TO EVERY SAUDI REQUEST,
OUR RESPONSE TO THE YEMEN SITUATION SHOULD BE SEEN AS PROOF
POSITIVE THAT THE UNITED STATES DOES NOT DESERT ITS FRIENDS
IN TIME OF NEED. IT WAS ALSO A CLEAR NOTICE TO THE REST
OF THE WORLD AS TO THE U.S. COMMITMENT TO SAUDI ARABIA AND
ITS SECURITY AGAINST EXTERNAL THREATS. WITH RESPECT TO
U.S. RESPONSES TO DEVELOPMENTS IN IRAN AND ETHIOPIA,
AMBASSADOR WEST NOTED THAT IT WAS DIFFICULT FOR US TO
LEND SUPPORT TO REGIMES FACING MAJOR DOMESTIC CONFLICTS
WITHOUT APPEARING TO INTERFERE UNDULY IN THOSE REGIME'S
INTERNAL AFFAIRS. THE AMBASSADOR REMINDED FAHDI THAT THE
ARAB SEEMED PARTICULARLY SENSITIVE IN THIS REGARD.
SAUDI ARABIA HAD OFTEN BEEN HELPFUL IN INSURING THAT THE
U.S. COULD SUPPORT OUR FRIENDS WITHOUT THAT SUPPORT BEING
EMBARRASSING OR COUNTERPRODUCTIVE. THE U.S. APPRECIATED THAT
PAST SUPPORT AND HOPED THAT THE CROWN PRINCE WOULD CONTINUE
TO ASSIST US IN GIVING THE PROPER SORT OF LOW VISIBILITY
SUPPORT MANY OF OUR FRIENDS IN THE REGION REQUIRED.
9. THE FOLLOWING DAY I SPOKE TO A NOTED CALLED COUNSELOR
WHO ASKED ME TO THE FOLLOWING QUESTION, WHICH AMBASSADOR
CARTER WAS ASKED:

\textit{What is your doctrine? I mean, we don't want to empower
all in the nation of your current AMBASSADOR.

I was about to say yes, but then I am telling the truth now,

I mean, if that is your doctrine, doctrine no. 1, we need

you for our area. Surely your president and people know

that there is a couple thousand Soviet troops near Florida

will not be tolerated by the US. Soviet presence gripping

our enemy throats around here, threatening to trample your

little cats and dogs, should be at least as deserving of a

firm, unequivocal stand. Remind Washington, in its context

of the Arabic saying "To count the lashes is one

thing, but to feel them is something else!" End comment.

10. THE PALESTINIAN QUESTION AND MIDDLE EAST PEACE:

The reiterated SAG's contention that any so-called solution

to the Arab-Israeli dispute which does not have the parti-

ipation and agreement of the Palestinians will not succeed.

Emphasized that, "We know from the Arabs, through Sadat, more

than the Israelis ever dreamed: respectability, acceptance

within the area as a state. But true to their style, the

Israelis keep waiting to grab, grab, grab! First they insist

on continuing, and in fact increasing, the building of settle-

ments on the West Bank. Now they want more Arab land, ostensibly

through purchase. Is this Israeli greed conducive to securing

Arab good will? Are the Israelis only interested in accommoda-

tion with Sadat and to hell with the rest of the Arabs? Is

the U.S. government condoning this? Are you going to do no

more than express 'regrets'? What is he doing? We assure

you that begin the bully that we in, listens only to the

voice that indicates the speaker has determination, cunning,

and the courage of his convictions." In other words (or so

it came out in ISA SABBAGH's interpretation), "The voice of

a man with balls!"
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11. In response Ambassador West reiterated President Carter’s deep commitment to a comprehensive and just peace, as well as the U.S. recognition that it is necessary to have a solution to the Palestinian problem as a prerequisite for Middle East peace. The Ambassador pointed out that in light of recent moderation shown by the PLO, public opinion polls were beginning to show that a majority of the people of the U.S. were in favor of a dialogue with the PLO. He added that the visits to the region by the Southern Christian Leadership Group and Reverend Jesse Jackson were sure to have a further impact on the American people in terms of familiarizing them with the plight of the Palestinians, while the Ambassador understood the patience shown by Saudi Arabia and the rest of the Arab world at the lack of progress on the autonomy negotiations, we were obligated to allow President Sadat and Prime Minister Begin a reasonable time to show progress on such negotiations. The U.S. would be prepared, if and when it appeared that there was an absolute statement, to rep in as a more active full partner in the peace process and to do our utmost to break any deadlock even if it meant taking positions adverse to both Sadat and Begin. Ambassador West added that Ambassador Strauss was planning to return to the area in December. In the meantime, he was looking forward to his talk with Sadat in New York and will be able to give an up-to-date account on progress in the autonomy negotiations.
12. CLOSING REMARKS:

AFTER ALMOST TWO HOURS OF CONVERSATION, THE CROWN PRINCE BROUGHT THE DISCUSSION TO A CLOSE. HE NOTED THAT "AS USUAL I HAVE SPOKEN FRANKLY, OPENING MY HEART TO MY AMERICAN FRIENDS, I WOULD NOT HAVE DONE SO IF I HAD NOT STILL THE GREATEST REGARD AND RESPECT FOR PRESIDENT CARTER. I APPRECIATE WHAT HE IS TRYING TO DO. HE NEEDS ENCOURAGEMENT AND REASSURANCE AND THIS HE HAS FROM ME AS A FRIEND WHO FEELS THAT THE TIES BETWEEN THE TWO COUNTRIES SHOULD NOT BE SUFFERED TO SLACKEN. MY REMARKS ABOUT U.S. INACTION OF SLOWNESS OF ACTION STEAM FROM OUR UNSHAKEABLE CONVITION THAT OUR SINCERE FRIEND, THE USA, IS CAPABLE OF ITS TRADITIONAL EFFECTIVE RESPONSE BEFITTING THE ESTEEMED LEADER OF THE FREE WORLD."

13. THE AMBASSADOR ASSURED PRINCE FAND THAT HIS REMARKS WERE WELL TAKEN, THAT PRESIDENT CARTER IS HIMSELF A FRANK PERSON WHO BELIEVES IN LISTENING TO A WISE, THOUGH CRITICAL, FRIEND SOONER THAN BEING FAWMED OVER BY HYPOCRITES.

14. AMBASSADOR'S COMMENT:

THE CROWN PRINCE WAS IN A TALKATIVE MOOD AND DIDN, IN FACT, SEEM TO BE "OPENING HIS HEART" WITH AN UNUSUAL DEGREE OF FRANKNESS. HIS COMMENTS ABOUT THE NEED FOR U.S. ACTION WERE AS POINTED AD ANY THAT HE HAS MADE DURING OUR ASSOCIATION. IT IS PERHAPS OF SOME SIGNIFICANCE THAT HE AND MINISTER OF PETROLEUM YAMANI HAD JUST COMPLETED A A LENGTHY SESSION WITH OIL MINISTER SABAH OF KUWAIT. WE SUSPECT THAT THE SAUDI DECISION TO INCREASE OIL PRODUCTION WAS THE MAJOR SUBJECT, SINCE SAUDI ARABIA HAS ACCOMMODATED USG ON THIS ISSUE, FAND HAD PROBABLY BEEN "CHARGED UP" BY SABAH TO GET SOME ADDITIONAL CONCESSIONS FROM USG ON GULF SECURITY AND MID EAST PEACE. THE FACT THAT ALMOST THE SAME SENTIMENT WAS EXPRESSED BY PRINCE ABDULLAH IN A MEETING THE NEXT DAY (JIDDA 5/7) STRENGTHENS OUR CONCLUSION THAT THIS IS THE PRESENT PREVAILING SENTIMENT WITHIN THE SAG HIERARCHY.

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#7986
WARNING NOTICE SENSITIVE SOURCES AND METHODS INVOLVED
NOT RELEASEABLE TO FOREIGN NATIONALS

(PARAGRAPHS 1-5 SECRET/NOFORN)

1. SAUDI-SOVIET RELATIONS: DESPITE OCCASIONAL REPORTS
TO THE CONTRARY, WE HAVE SEEN NO PERSUASIVE EVIDENCE OF A
SIGNIFICANT WARMING OF SOVIET-SAUDI RELATIONS. SPECULATION
THAT THE SAUDIS LATELY HAVE—AS THE SOVIET PRESS PUTS
IT—"TRANSCENDED MERE PROTOCOL" IN THEIR COMMUNICATIONS
WITH THE SOVIETS SEEMS TO BE BASED LARGELY ON:

(A) THE EXCHANGE OF CONGRATULATORY CABLES BETWEEN SOVIET
AND SAUDI LEADERS IN CONNECTION WITH SAUDI ARABIA'S
NATIONAL DAY ON SEPTEMBER 23; AND

(B) THE FACT THAT THE SAUDI ARABIAN AMBASSADOR AND
MILITARY ATTACHE ATTENDED A RECEPTION HOSTED BY THE
SOVIET EMBASSY IN SANA ON SEPTEMBER 30.

2. THE USSR HAS ATTEMPTED TO IMPROVE RELATIONS WITH

3. IN REGARD TO THE EXCHANGE OF CONGRATULATORY TELEGRAMS BETWEEN BREZHNEV AND KHALID, IT IS NOTEWORTHY THAT:

(A) THIS WAS NOT THE FIRST TIME THE TWO LEADERS HAD EXCHANGED TELEGRAMS;

(B) WHILE THE SOVIETS WOULD LIKE TO EXPLOIT THE CURRENT SAUDI POSITION ON THE PEACE PROCESS TO IMPROVE RELATIONS WITH THE SAUDIS, THE SAUDI REGIME CANNOT, BECAUSE OF FOREIGN AND DOMESTIC CONSIDERATIONS, MAKE ANY STRONG MOVE IN THIS DIRECTION AT THIS TIME; AND

(C) SAUDI ARABIA ENCOURAGES SUCH RUMORS FROM TIME TO TIME TO PUT PRESSURE ON THE US TO CHANGE POSITION ON VARIOUS QUESTIONS AND TO VOICE SAUDI DISSATISFACTION OVER SPECIFIC AMERICAN MOVES.

4. AT THE SAME TIME, REPORTS FROM HIGH SAUDI OFFICIALS SUGGEST THAT THE SAUDIS ARE CONCERNED THAT THE US DOES NOT TAKE THE SOVIET DANGER SERIOUSLY ENOUGH.

5. THE INTENSITY OF SAUDI REMARKS ON THE SUBJECT MAKES CLEAR THAT THE SAUDIS ARE NOT IN FACT WARNING UP TO THE SOVIETS. INSTEAD, THE SAUDI LEADERSHIP HOPES TO USE SUCH MINIMAL GESTURES AS ATTENDING SOVIET RECEPTIONS AS SCARE TACTICS TO PROMPT THE US INTO TAKING SAUDI COOPERATION LESS FOR GRANTED.

PALESTINIAN ISSUE TO "ADOPT DECISIONS THAT CANNOT BE TAKEN AT THE CURRENT MINISTERIAL LEVEL WAS "A HIGH PROBABILITY."

7. (U) ISRAELI PRISONER RELEASE: THE EGYPTIAN PRESS CARRIED REPORTS OCTOBER 18 THAT ISRAEL MAY HAVE RELEASED AN UNSPECIFIED NUMBER OF ARAB PRISONERS. EMBASSY CAIRO COMMENTED THAT THE PRESS FAILED TO PICK UP A JERUSALEM RADIO REPORT THAT THE PRISONERS WERE FROM AL-ARISH AND NORTHERN SINAI AND HAD NOT ACTIVELY ENGAGED IN TERRORIST ACTIVITIES.

8. (C) US ROLE IN SINAI: EMBASSY TEL AVIV REPORTS THAT WEIZMAN IN AN OCTOBER 17 MEETING WITH SINAI SUPPORT MISSION AND EMBASSY PERSONNEL AGREED WITH THE PROPOSALS FOR VERIFICATION ACTIVITIES IN THE SINAI, EXCEPT FOR THE USTSO PRESENCE, WHICH HE SAID COULD ONLY BE ONE OF LIMITED LOGISTICAL SUPPORT TO THE US.

9. (U) SAUDI ARABIA-US ARMS SALES TO ISRAEL: AP REPORTS THAT SAUDI ARABIAN OIL MINISTER YAMANI CALLED FOR A BAN ON ALL US ARMS SALED TO ISRAEL OCTOBER 18. YAMANI ADDED, HOWEVER, THAT SAUDI ARABIA ITSELF NEEDS US ARMS AS A PROTECTION AGAINST COUNTRIES WHICH SUPPORTED THE GOALS OF THE SOVIET UNION.
10. (U) KHALIL VISITS EUROPE: RADIO CAIRO REPORTED
KHALIL LEFT OCTOBER 18 ON A 10-DAY TOUR THAT WILL
INCLUDE AUSTRIA AND BRITAIN.

11. (U) IRAQ RAISES PRICE OF OIL: ACCORDING TO AP,
OIL INDUSTRY SOURCES SAID OCTOBER 18 THAT IRAQ HAS
RAISED THE PRICE OF ITS OIL ABOUT 10 PERCENT. IRAQ
HOWEVER, DID NOT RAISE ITS PRICES ABOVE THE DOLLARS 23.50
PER BARREL CEILING SET BY OPEC IN JUNE. IRAQ RAISED
THE PRICE OF ITS BEST-QUALITY OIL ONLY 8 CENTS TO
DOLLARS 22.18 PER BARREL, BUT INCREASED THE PRICES OF THE
LOWER QUALITY CRUDES THAT DOMINATE IRAQI PRODUCTION BY
2 DOLLARS TO BETWEEN DOLLARS 20.65 AND DOLLARS 21.96 PER
BARREL.

12. (U) GULF STATES–IRAN: RADIO KUWAIT REPORTS THAT
THE FOREIGN MINISTERS OF THE SIX ARAB GULF STATES
UNANIMOUSLY A STATEMENT OCTOBER 18 IN WHICH THEY AGREED
AT THEIR CONFERENCE TO DEVELOP RELATIONS WITH IRAN
TO THE MAXIMUM.

13. (U) OPEC WARNING: OPEC CHAIRMAN MANA SAID OTAYBA
IN A VISIT TO JAPAN OCTOBER 18 WARNED OF THE RISING
ANGER OF A SUPERPOWER CONFRONTATION OVER OIL. REUTER
REPORTED THAT OTAYBA TOLD PRIME MINISTER FUKUDA THAT
THE DROP IN SOVIET OIL OUTPUT MIGHT FORCE MOSCOW TO
ABANDON ITS INTERESTS IN THE MIDDLE EAST AND UPSET THE
OIL BALANCE. OTAYBA ALSO LINKED JAPAN'S RECOGNITION
OF THE PLO WITH GUARANTEES FOR THE SUPPLY OF OIL.

15. (C) RIP'AT AL-ASSAD: SYRIAN MEDIA ARE GIVING SUBLIME INDICATIONS THAT THE PRESIDENT'S BROTHER, RIP'AT AL-ASSAD, IS STILL IN FAVOR IN SYRIA, ACCORDING TO EMBASSY DAMASCUS. ON OCTOBER 13 THE DAMASCUS PRESS PROMINENTLY DISPLAYED A PHOTOGRAPH OF RIP'AT CHAIRING A MEETING OF AN EDUCATION FEDERATION. THE ARTICLE REFERRED TO HIM AS A "STAFF COLONEL."

16. (S) SYRIA-INTERNAL: EMBASSY DAMASCUS REPORTS THAT TERRORIST INCIDENTS CONTINUE TO OCCUR ALTHOUGH THE VENUE HAS SHIFTED LARGELY TO SYRIA'S NORTHERN CITIES. ALEPPO AND HAMA HAVE BEEN THE SITES OF A NUMBER OF ASSASSINATIONS OVER THE PAST TWO WEEKS, WITH SEVERAL OF THE INCIDENTS APPARENTLY STEMMING FROM LONG-STANDING BLOOD FEUDS. THE EMBASSY CONTENTS THAT IN SPITE OF THE FAIRLY HEAVY NUMBER OF INCIDENTS OVER THE PAST TWO WEEKS, THE DAMASCUS RUMOR MILL HAS NOT BEEN PARTICULARLY ACTIVE. THE EMBASSY ATTRIBUTES THIS DEVELOPMENT TO:

(A) THE FACT THAT INCIDENTS OUTSIDE OF DAMASCUS, UNLESS OF MAJOR MAGNITUDE, TEND TO ATTRACT LESS ATTENTION; AND

(B) DAMASCENES APPEAR TO BE BECOMING SOMEWHAT INURED TO THE ALMOST DAILY ACTS OF VIOLENCE.

17. (LOU) NORTH LEBANON: EMBASSY BEIRUT REPORTS THAT A LEBANESE ARMY SOURCE TOLD OUR DEFENSE ATTACHE THAT TENSION HAD EASED, IN NORTH LEBANON OCTOBER 18 AND THAT HE EXPECTED THE HOSTAGES TO BE RELEASED SOON.
18. (C) SOUTH LEBANON: U.S. UN REPORTS THAT WEIZMAN IN HIS CONVERSATION WITH SILLASVUO, PLEDGED PULL ISRAELI SUPPORT FOR MAINTENANCE OF THE CEASEFIRE. WEIZMAN ALSO SAID THAT HE WOULD GIVE ORDERS FOR HADDAD TO STOP THE HARRASSMENT OF VILLAGERS LIVING IN THE UNIFIL AREA. VANCE BT #8132
CONFIDENTIAL SECTION 1 OF 2 JIDDA 7445

DEPT PLEASE PASS DEPT OF TREASURY, MRS. POUNDS

É.O. 12065: GDS 10/23/85 (WALKER, ROBERT L.) OR-E
TAGS: ECON, EPIN
SUBJ: SAUDI ARABIA' THIRD DEVELOPMENT PLAN (1980/81-1984/85)

REP: JIDDA 6801

1. (C-ENTIRE TEXT).

2. THE SOCIAL AND ECONOMIC Havoc THAT Emerged THROUGH-
OUT THE GULF AS A CONSEQUENCE OF FRANTIC SPENDING IN-
CREASES BEGINNING IN 1974 LED THE SAUDI GOVERNMENT BY 1977
TO CURTAIL SHARPLY THE GROWTH IN ITS SPENDING, SO AS BOTH
TO REDUCE INFLATION AND TO SET THE SOCIETY ON A MORE
SUSTAINABLE DEVELOPMENT PATH. THE GOVERNMENT'S EFFORTS WERE
SUCCESSFUL ON BOTH COUNTS. DESPITE THIS SUCCESS, ERUPTION THIS PAST YEAR OF POLITICAL REACTION IN IRAN AGAINST RAPID SOCIAL CHANGE HAS INCREASED AWARENESS WITHIN SAUDI LEADERSHIP CIRCLES OF THE SOCIALLY DESTABILIZING EFFECTS OF ECONOMIC DEVELOPMENT.

3. AGAINST THIS BACKGROUND, THE THIRD FIVE YEAR DEVELOPMENT PLAN HAS BEEN FORMULATED TO CONTINUE THE POLICY OF LIMITED SPENDING INCREASES AND TO CONCENTRATE SPENDING ON SOCIALLY DESIRABLE ACTIVITIES. PRELIMINARY INDICATIONS ARE THAT OVERALL SPENDING FOR THE FIVE YEAR PERIOD IS TARGETED AT SOMewhat ABOVE 800 BILLION RIYALS, OR DOLS 238 BILLION AT THE CURRENT EXCHANGE RATE. EVEN ASSUMING THAT THIS AMOUNT IS EXPRESSED IN CONSTANT (1979) RIYALS, IT IMPLIES NO REAL GROWTH FOR THE NEXT FIVE YEARS IN GOVERNMENT OUTLAYS FROM THIS YEAR'S ANNUAL BUDGET OF 160 BILLION RIYALS, OR DOLS 47 BILLION.

4. SAUDI DEPUTY MINISTER OF PLANNING DR. FAISAL BASHIR RECENTLY CHARACTERIZED THE THIRD PLAN'S RELATIVE EMPHASIS NOT IN TERMS OF CONTINUITY, BUT OF SHIFTS OF EMPHASIS. HE SAID THAT THE THIRD PLAN WOULD SHIFT AWAY FROM PHYSICAL INFRASTRUCTURE DEVELOPMENT, WHICH HAS IN SOME CASES BEEN OVERBUILT, TOWARD PRODUCTIVE ENTERPRISE, PARTICULARLY PETROCHEMICALS, OIL REFINING AND AGRICULTURE. THE NEW PLAN WILL ALSO PUT LESS EMPHASIS ON DEVELOPING THE KINGDOM'S THREE MAJOR CITIES AND WILL MAKE MORE EFFORT TO EXTEND DEVELOPMENT TO OUTLYING AREAS. SUCH MEASURES ARE DESIGNED TO ADDRESS REGIONAL IMBALANCES IN WEALTH AND RATES OF DEVELOPMENT AND THEREBY TO RETARD THE INFUX OF POPULATION INTO THE MAJOR CITIES. BASHIR ALSO SAID THAT HE FORESAW NO APPRECIABLE INCREASE IN THE NUMBER OF FOREIGN WORKERS IN SAUDI ARABIA DURING THE THIRD PLAN, BUT, RATHER, ANTICIPATED INTENSIFIED EFFORTS TOWARD SOCIAL INFRASTRUCTURE DEVELOPMENT, PARTICULARLY IN THE AREA OF VOCATIONAL TRAINING.

5. NO MATTER HOW WELL EXECUTED THESE EFFORTS DURING THE THIRD PLAN PERIOD, UNDERLYING TENSIONS CAN BE EXPECTED TO REMAIN. ON THE ONE HAND, A CONSERVATIVE FISCAL POLICY INEVITABLY SQUEEZES TRADERS' MARGINS OF PROFIT, FOSTERING GRIEVEMENT, PARTICULARLY AMONG SMALLER TRADERS, OF THE
RICHER AND MORE PRIVILEGED. ON THE OTHER HAND, IT BECOMES INCREASINGLY OBVIOUS WITH THE PASSAGE OF YEARS THAT THE ECONOMIC TRANSFORMATIONS EMBARKED UPON IN 1974 HAVE BROUGHT ABOUT CUMULATIVE AND LONG-LASTING EFFECTS ON SAUDIS' TRADITIONAL VALUES, AS WELL AS ON THEIR INCOMES. THESE COMMONLY SHARED VALUES HAVE BEEN A MAJOR SOURCE OF LEGITIMACY FOR THE MONARCHY.

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OIL REVENUE AVAILABILITY HAS TAKEN ON A DOMESTIC POLITICAL SIGNIFICANCE THAT WILL CONTINUE THROUGH THE THIRD PLAN. IN 1978/79, THE REVENUE SHORTFALL SERVED AS MUCH AS A PRETEXT FOR FISCAL AUSTERITY THAT WAS MOTIVATED BY SOCIAL CONSIDERATIONS AS A REASON FOR AUSTERITY IN AND OF ITSELF. WITH PRESENT AND PROSPECTIVE REVENUE INCREASES BEYOND DESIRED EXPENDITURE LEVELS, (OWING MAINLY TO OIL PRICE, BUT ALSO TO OIL PRODUCTION INCREASES), THE SAUDI GOVERNMENT FEELS THAT
IT MUST EXERT CONSIDERABLE EFFORTS TO MAINTAIN SPENDING CONTROLS. CONTINUED SURPLUSES MERELY TEMPT THE REGIME TO OVERSpend, AS IN THE 1975-76 PERIOD, AND INVITE FURTHER CRITICISM OF SAUDI OIL PRODUCTION LEVELS FROM SAUDI NATIONALISTS AND OTHER OPEC MEMBERS ALIKE. CONCERN WITH THESE DOMESTIC CONSIDERATIONS MARKS A CLEAR SHIFT OF EMPHASIS FROM FIVE YEARS AGO, WHEN THE SECOND FIVE YEAR PLAN WAS FORMULATED TO SPEND AS MUCH OF THE PROSPECTIVE REVENUES AS POSSIBLE, SO AS TO BLUNT CRITICISM FROM THE NON-OPEC WORLD OF THE END-1973 OIL PRICE QUINTUPLING.

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