



## SAUDI ARABIA, ENEMY OR FRIEND?

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### **CHAS. W. FREEMAN, JR., president, Middle East Policy Council**

Is Saudi Arabia an enemy or a friend? If it is an enemy, will it become once again a friend; or if it is a friend, is it on the way to becoming an enemy? The two governments, for very sound reasons, assert that we are friends. None of the interests that drew us together before 9/11 have been altered in any respect. Saudi Arabia still has a wondrous supply of oil, and we are still gluttonous consumers of oil. Saudi Arabia still is the birthplace of Islam and the location of two of its holiest cities, and the United States is, if anything, even more concerned about the temper of Islam than it used to be. And Saudi Arabia has not moved. It still sits between Asia and Europe. You still cannot travel between Asia and Europe without flying over or circumnavigating Saudi Arabia.

To these three interests a fourth has been added: the issue of terrorism. The same organizations and individuals target both the royal family and monarchy in Saudi Arabia and us. We have a common enemy in al-Qaeda. So, not surprisingly, the two governments are interested in promoting cooperation. The two peoples have a different view, however, and both governments find themselves defending this relationship against widespread popular opposition.

I was in Saudi Arabia a week ago, and, frankly, what I saw startled me. The last five or six years have been dynamic in terms of Saudi foreign policy. Saudi Arabia has now settled all of its borders. There is some sort of dispute remaining about mineral rights at the Buraymi Oasis, but the borders with Yemen, Qatar and Kuwait have all been settled.

The crown prince, of course, took a major and very brave initiative, standing traditional Saudi policy on its head with regard to the Israeli-Palestinian and Israeli-Arab disputes. Reversing previous policy – that Saudi Arabia would be the last Arab country to normalize with Israel – he proclaimed that Saudi Arabia would be the first and would lead the rest of the Arab League in normalizing with Israel, if a satisfactory peace could be agreed between Israel and its neighbors and its fellow inhabitants of the former Palestine Mandate.

The crown prince also has led an international effort to promote Arab reform. More interesting – this is where I found my surprise – that pledge of reform is apparently being



implemented. There is a vigorous debate going on among Islamic thinkers in Saudi Arabia, instigated by the crown prince. There is a far freer atmosphere of discussion on public-policy issues generally than anyone can recall. The schools, I heard from many friends, have been reclaimed from the right-wing religious extremists who had, to some extent, gained control of them.

Popular support of the government in the struggle against terror is high, since Saudis observing the May and November bombings of compounds have been able to see that the objective of the terrorists is not just to kill Americans and other Westerners, but to destroy the liberal and cosmopolitan element in Saudi Arabia itself. Middle-class Saudis are the target as much as anyone in this room.

More startling yet, the economy is booming. The stock market was up 75 percent last year in Riyadh. Construction is everywhere in evidence. Public debt is being retired. A lot of money has been repatriated, much of it from the United States, which is now seen as a politically risky place to invest. It's come home and is being used for good purposes. WTO accession negotiations, which have been in the doldrums, are now in the final sprint, and some predict that as early as February the United States and Saudi Arabia may be able to conclude those discussions, with a multilateral session in May bringing Saudi Arabia finally into conformity with global norms in the area of trade and investment.

So the sense that I and some ex-pats in Saudi Arabia had when I was ambassador there from 1989 to '92, that the kingdom's secret motto was "progress without change," something only Saudis seem to be able to manage, has been replaced. There is clearly real change going on. What's more, much of it seems to represent progress. There are also negative things, of course. Saudi Arabia was a peaceable kingdom. It is now full of roadblocks, police checkpoints, jersey barriers and barricades, given the justifiable high degree of concern about domestic terrorism.

All of these developments, however, with the possible exception of the latter, are essentially invisible to Americans. The whole relationship is colored by a mutual antagonism and antipathy at the popular level that resembles nothing so much as the rage, frustration, anger and bitterness of a divorced spouse or a friend who has been betrayed. Unfortunately, neither government seems to have a strategy for changing minds, though it's clear that Saudis are trying harder to change American minds than Americans are to change Saudi minds.

Most Americans are probably unaware of the shift in attitudes toward us, which I just described, but it's very evident, not just anecdotally but in figures. Applications for visas to the United States are now well below 20 percent of what they were prior to 9/11. Institutions like Saudi Aramco, which were the emblems of Americanization and the American-Saudi connection, now send their trainees almost entirely elsewhere. Saudi Aramco, which used to rebuff European and Asian businesses by saying, "We do business the American way, and we don't understand your way, so either you conform to American ways or don't do business here," is now learning how to do business European- and Japanese-style. So Americans are finding ourselves increasingly displaced, in both the cultural and commercial realms, by our competitors, and the American community in Saudi Arabia has shrunk to a mere fraction of what it was before.



**DAVID AUFHAUSER, former general counsel, Department of the Treasury**

I don't think anything has more political resonance with the American populace right now in terms of the American-Saudi relationship than the issue of the financing of terror. I say that as an observer of their perception. In many respects, my responsibility at Treasury with regard to terrorist financing showed me that we may be too Saudi-centric in some of the vocabulary and focus, and that terrorist focus is a significant global problem. But, nevertheless, in the eyes of the American body politic, I don't think anything has a higher profile in terms of needing to be resolved. And it is also doable. So it's a perfect proxy for trying to demonstrate comity rather than animus.

With all due respect, I think the title for the conference does a disservice to the purpose of the people on the panel. I understand it draws people in, but there's a great deal of complexity to the subject. The financing issue is a very sore wound between the countries, but still is quite open to resolution. We had some encouraging news yesterday: a joint Saudi-U.S. action designated four offices of one of Saudi Arabia's largest charities – one sponsored by the royal family and overseen by its fiduciaries – designated as fronts for terrorist activity. This is a very important indication of joint resolve to try to attack a common problem, at least vis-à-vis al-Qaeda's conduct globally.

This is also one more in a long list of very positive developments between the two countries. First, the establishment of charities oversight, since a great deal of the money that goes unaccounted for and eventually gets diverted to outposts of the world where NGOs are located comes from charities, is a significant step. Second, a bar on cross-border cash giving. Third, the requirement that charities have single-disbursement accounts so that there can be tighter controls. Fourth, approval of the signatory over those accounts. Fifth, a relatively new and sophisticated anti-money-laundering regime, legislation and rules, and no cross-border transfers unless licensed. Sixth, opening the regime to international audit recently by the financial-action task force. (About two months ago a team went to Saudi Arabia to scrutinize those rules and to try to make suggestions about how to improve them.) Seventh, prohibiting and closing down unlicensed money-exchange houses and increasing supervision over the informal transfer houses known popularly as *halawas*. Eighth, the actual arrest of 6, 8, or 10 significant financial facilitators within the peninsula who have been identified either to us or to the Saudi government by detainees as significant players in the raising of money. Ninth, the freezing of the assets of two prominent Jeddah merchants over the last year and a half for having been too casual about what transpires in their businesses. Lastly, the establishment of a joint task force with federal officials in Riyadh. It was one of my last and most significant official acts to actually pursue, with the benefit of compulsory process, investigations of people within the peninsula for participating in terrorist financing.

But there are two other measures that speak greater volumes for the promise held here of jointly working on this problem. The first is a ban on the collection of coin and currency today in Saudi mosques. Probably for more than 1,500 years, in every mosque in Saudi Arabia there's been a collection box. It's known as a *qaddah*. It's a place where people make their own covenant with their own god. It's actually a quiet, private, secret act, and it's no business of the government to get involved in it. But they, and we,



found that these collection boxes were in the hands of various al-Qaeda cells. Therefore, they had the potential of significant unaccounted-for funds falling into the hands of terrorists, and the Saudi government decided that they would ban the collection of these coins and currencies. You may think this is a small matter, but small collections aggregated together pose significant problems, not only in Saudi Arabia but in call centers and schools and mosques throughout the Islamic world. This is a real sea change. It may be difficult to police, but its symbolism cannot be overstated.

The second is a nascent yet very important commitment to begin to vet clerics and imams, what they teach, and what they do with the money that is entrusted to them by their congregations. That started domestically, and you've seen some recantations recently by some clerics, people who previously championed terror openly but who've said they see the error of their ways.

This is the good news, but I don't want to be totally pollyannaish. I'm still concerned about the relationship and about the effort on terrorist financing. First, the action on Al Haremein simply took too long. It's been part of a dialogue that's been going on for a year. It's been part of a dialogue that has been frustrated by lethargy and inaction. I don't know whether people perished during the year of the dialogue, particularly in these four jurisdictions, but we took these jurisdictions, and indeed other names of the Al Haremein charity, to the Saudi government a long time ago. It was our strongest case for demonstrating that people who've used the cover of NGOs and charity are actually underwriting terror in Indonesia, Tanzania, Kenya, Pakistan and elsewhere.

Second is the rather troubling statement – a statement that apparently the U.S. Treasury joined in yesterday in the official press release – that the Saudi government said they had no control over these foreign offices of Al Haremein. Now think for a minute: Al Haremein was established by the royal family. It strikes me that there's an abdication of power and responsibility when you say you do not have the ability to actually close down these offices abroad and that the best you can do is to freeze what assets they have within your jurisdiction and to prohibit future contributions.

Another observation about the Al Haremein effort: It's the result of U.S. information brought to the Saudis. They need to be incubators of information themselves. They need to be initiators; they need to be more proactive.

Third, all the changes I ticked off are largely systemic and structural changes and they are absolutely necessary, but none are sufficient unless you get at the core issue of personal responsibility. In the two and a half years that I spent on this matter I cannot remember a single Saudi who has been held accountable for participating as a donor in terrorist financing. Until we get to the issue of donors, the exercise is a fool's errand. That's what's promising about the joint task force that has been established between the Saudi and U.S. governments.

Let me get on to somewhat more contentious grounds. I also don't think we get ahead of the curve until it is a principle of our friends abroad that it's a crime to give money to organizations that you know take portions of the money to blow up school buses and kill families, and who put a premium on killing civilians. Today, even as I speak, during the Haj, Hamas is collecting significant amounts of money in Saudi Arabia, if the



past is prologue. Until we get a declaration that giving money to the Hamases of the world is just not acceptable and is culturally, morally and legally in violation of *Sharia* or any other principle of conduct, we're not going to make sufficient headway. By the way, prohibiting giving to the Hamases of the world does not prohibit giving to schools and libraries and the building of default civilian governments in Palestine. It just puts political will and the capabilities of the governments to the test of establishing surrogates or alternatives for that giving. But we must actually have clear rules about prohibitions on giving to organizations that openly champion on TV and the radio the underwriting of terrorist conduct.

I want to reemphasize what I said in the beginning. At least in the eyes of Americans, this issue of whether or not Saudi Arabia is one of the banks for terror needs to be resolved. Otherwise, the relationship will be irreparably breached.

**AMB. FREEMAN:** Thank you very much, for the excellent summary of what has been done and, more particularly, the challenge of what has to be done. I think it's fair to say that, on the Saudi side, this is equally contentious. Views of Hamas in Saudi Arabia and in the Arab world more generally do not coincide with views in the United States. While Europeans have recently agreed with us on this, it remains a very contentious political issue.

**FRANK ANDERSON, former chief, Near East and South Asia Division, CIA**

Chas. spoke of recent history. The thing that struck me is how recent it all is. As a comparatively old nation, we experience a joke when we realize how brand-new Saudi Arabia is. The kingdom was born only a year before my father was. The rulers of the kingdom right now have memories of the period when it was still being consolidated. It's a new place, and remarkable things have happened in a very short period of time. This American-Saudi relationship has never been one in which our interests, our cultures and our politics have really meshed. We've always been a little bit on different sides.

The Saudis have vacillated in the skill with which they've handled it, and it has depended largely upon the personality of the Saudi ruler. The beginnings of this relationship were under the founder of the kingdom, Abul Aziz ibn Saud. Ibn Saud was a remarkable, intuitive leader, and his intuition about the Americans is best described when he was asked, why did you pick the Americans? They're the ones whom you've selected to be the developers of your oil fields. You gave them concessions. What's the deal? He said, three things have led me to this, and it wasn't the oil. Saudi Arabia needs a great-power partner. It needs to be in a security partnership – a term used by Parker Hart, one of the early U.S. chiefs of mission in Saudi Arabia – with a great power. We've watched the Americans in Bahrain, and they were able to find oil when nobody else could. So the Americans are not just a great power, they're a competent great power. The Bahrainis are our brothers, and we note that the Americans really treat them like equals – a stunt that the British never pulled off. The third thing we note is that they are very far away. Saudi Arabia could have a strategic partnership with less fear of being conquered.

First, real communication between Ibn Saud and President Roosevelt was interesting. In 1943, the president sent a personal emissary, Harold Hoskins, a speaker of Arabic, to





see if Ibn Saud would meet with Chaim Weizmann to discuss a mutually acceptable solution to the problem between Arabs and Jews. Ibn Saud sent back a letter that was a surprise to FDR saying he wouldn't meet with Chaim Weizmann because Weizmann had tried to bribe him. I don't know if it was true, but apparently a message was sent to Ibn Saud that he could have 20 million pounds if he would assist in the solution to the problem, and that moreover, it was said that FDR would guarantee it. FDR sent back another message saying, well, no, I didn't say that. Sitting with Hoskins, Ibn Saud said he suggested to Weizmann and to the Jewish Agency that they ought to invest in making it possible for the Arabs from whom they were purchasing land in Palestine to go and establish themselves elsewhere.

So there was a conflict between Ibn Saud and FDR: a totally different view on Palestine. Nevertheless, when Ibn Saud asked for friendship, FDR said, I'll never do anything that will prove hostile to the Arabs, and I'll make no change in our basic policy on Palestine without full and prior consultation between both Jews and Arabs. Ibn Saud had earlier authorized overflights by U.S. air force planes and the establishment of the Dhahran airbase, which became an issue not just between the two countries but between Saudi Arabia and the rest of the area. Then Roosevelt dies. Truman comes in and calls together the chiefs of his Near East missions and says, I know we've made these promises about Palestine, but here's my problem: I have hundreds of thousands of very well financed, very interested constituents who are pushing me in one direction on Palestine, and, frankly gentlemen, I don't have hundreds of thousands of Arab constituents. So I'm going the other way.

The next Saudi message comes from Ibn Saud in a private audience in Riyadh with the chief minister. Ibn Saud said, putting aside this painful question of Palestine with which we disagree, I have some problems, and I'm looking for a partnership. I've been told that you've agreed with the British that I'm part of their sphere of influence. How about a few arms to help us protect the trans-Arabian pipeline? The United States comes back and says, no, we're not at all interested in your being part of the British sphere of influence, but in your being an independent country. We'd like to help you with arms, but we're a little concerned about arms in the area because there happens to have been this little dispute going on in Palestine. The Saudis stay on our side, and are pushed aside.

In this process we did commit ourselves to stand by to preserve the territorial integrity and independence of Saudi Arabia from any threat. The first issue on which they asked us for defense of their territorial integrity was the Buraymi Oasis, threatened at the time by our partners, the United Kingdom. We worked very hard to explain that we were ready to go to war on their behalf but not against the United Kingdom.

The Saudis continued to push for a U.S. partnership; the U.S. reluctance continued. The low point was 1954. Faisal called in the Americans and said, we no longer want technical assistance; we've decided not to trouble you any more. The high point occurred after the 1956 Suez crisis when the United States and Saudi Arabia quickly became close. The United States became a major supplier of military equipment and expertise to Saudi Arabia. The most important thing that happened as the two countries grew together in the 1950s was the ascension following King Abdul Aziz's death of King Saud, who was



corrupt and incompetent and mismanaged this relationship as badly as he did any other.

The few years that King Faisal ran the country, when he was prime minister and before he was king, there was an improvement in the relationship. It was strained over Yemen, another issue in which the United States had a different agenda. There was a revolution in Yemen in 1962. The Saudis quickly entered the fray on the side of some royalist forces, attempting a counterrevolution. The United States initially supported the Saudi position, was then forced to back off a little because of an attempt to have a balanced relationship with Egypt's Nasser. It cost too much. We ended up keeping the relationship with Saudi Arabia together but it was a serious issue to us until the 1967 war, which pulled the Egyptians out of there rather than ourselves.

Post-1967, there were a few relatively good years in which the Saudis exploited the 1967 war to finish their problem with Nasser – not just to get him out of Yemen but in fact to buy him off. Faisal had turned to the United States and said, I have now accomplished the following: Abdel-Nasser owes us enough that we can develop Saudi Arabia in a Saudi way without the pressure of Arab socialism or this nationalism. There was disappointment on the American side. The United States had a great desire to use the '67 war as a crux on which to move forward to a solution of the Arab-Israeli issue. Saudi Arabia went to the Arab League Khartoum conference, which yielded nothing.

We've stayed on different sides. Afghanistan was one of our great points of cooperation. Both we and the Pakistanis pushed the Saudis to try and control a little more the private contributions to the mujahadeen. I don't know how much the Saudis didn't want to, but they frankly felt they couldn't. They finally went to the Pakistanis at one point and said, here's your choice: we can either cut it off or we can let it go on. The Pakistanis decided that cutting it off wasn't fair.

**AMB. FREEMAN:** It is very useful to be reminded that on the other side in the Saudi leadership all of this is living memory. I can recall one instance, around 1992, when I had an instruction to persuade the minister of defense, Prince Sultan, of something. I thought it made a lot of sense and I prepared myself quite thoroughly to be as persuasive as I could be. I went in, and, frankly, I did a hell of a job. I persuaded myself, at least, and some of his staff. But he looked at me at the end of it and said, in effect, Bob McNamara tried that on me in 1964. I didn't buy it then, and I don't buy it now.

You raised one question that I will simply lay out for later discussion, by noting the centrality of the Israeli-Palestinian issue to the very beginning of U.S.-Saudi relations. Some Saudis now argue that the U.S. relationship has greatly diminished utility to Saudi Arabia because the United States demonstrably is no longer either willing or perhaps even

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able to constrain Israel. One of the main points that the Saudis looked to in the U.S. relationship was that the United States would preclude Israeli aggression or other hostile activity against Saudi Arabia. Now there's a question about whether we can or would do that.

Let's turn now to the realm of religion, culture and education. In the wake of David Aufhauser's very important discussion of mosque collections, I wonder whether the U.S. government could prohibit passing the collection plate in Irish Catholic churches in Boston in order to cut off the IRA. If you think of it in those terms, you understand the drastic nature of the political decision that has been made in Saudi Arabia.

**DAVID E. LONG, retired U.S. foreign service officer – Saudi Arabia, Sudan, Morocco and Jordan**

When I was doing anti-terrorism activity back in the '80s, I used to have interminable meetings with the FBI, who wanted to stop the flow of illegal monies to terrorists, the biggest source of which was to the PIRA from Irish-Americans. I didn't think it could be done then, and I don't think it can be done now. I do think that, as we are doing, we can limit it and make it harder for it to flow. But I think it's absolute nonsense to think that we can stop it.

I want to make two interrelated points about this. The first is to remind people of how far the Saudis have come in managing financial transactions. I am holding a note that says 10 riyals. It was issued by the Saudi Arabian Monetary Agency, but it is not a bank note. Back in the early 1950s there were no bank notes. They had a gold and silver standard, and gold and silver fluctuated differently, so when gold was high, silver came roaring in, and when gold was low, gold came roaring in and messed up the currency entirely. They realized they had to do something. So in 1952 they got an American named Arthur Young to come in and help them start a central bank, which they couldn't call a bank because banks charge interest, considered usury in Islam, so they called it the Saudi Arabian Monetary Agency, or SAMA.

I want to read you something about the difficulty they had before that. This is from *Aramco World*:

Insistence on hard money had unexpected side effects, particularly for companies like Aramco, which in the 1950s had a payroll running to 5 million riyals a month. With only one denomination of silver coin available, a month's wages for a typical worker would weigh about 10 pounds. To meet the entire payroll, the company had to transport, store, guard, and count 60 tons of silver every month. It also had to find extra storage, provide a fleet of trucks, hire dozens of laborers to load and unload the sacks of coins and a huge staff to sort and count it.

This was in 1952. So SAMA, which was not allowed to make bank notes, did a sneaky thing. They created "Hajj receipts" for the pilgrims. The Hajj receipt says, "The Saudi Arabian Monetary Agency holds in its vaults 10 riyals at the disposal of the bearer of this fully negotiable receipt." These receipts were issued to Hajjis in lieu of heavy silver coins, with the promise that they could be redeemed for silver; but as planned, most of the receipts were never redeemed. SAMA made a second issue, and even fewer of





them were redeemed. Thus with millions of these running around, they in effect became paper currency. Finally SAMA printed bona fide paper currency in 1959, and in the 1960s, withdrew all the Hajj receipts from circulation. To complete the story, all metal coins have now been withdrawn and Saudi Arabia now has only paper currency. You have to go to an antique store to find one.

This is all within my memory. So, when we assume that the Saudis aren't doing enough, I submit that in terms of financial transactions and having oversight and regulation of these transactions – particularly the international ones – it is worth it to look at how far they have come. And it isn't because the United States has, in a patronizing way, told them to. It's because they're realists. In financial transactions that are commercial and government to government, and government to private sector, they had to pull up their socks if they wanted to deal effectively in the modern world of finance. And they did. They have over the years created a fairly good international monetary policy with oversight. It is not perfect, but who is? You can look at *The Wall Street Journal* to see how perfect we are.

The second point deals with charitable institutions. Why didn't the Saudis apply oversight to charities? If you're giving a million dollars, you want to know where it goes, but if you're putting 10 bucks in the plate, you don't. Your obligation is discharged when you drop it in the plate. This is the same notion, only stronger, in Arabia. Charity is one of the four pillars of Islam, *zakat*. The obligation is to give, not to trace the gift. And there is no tax-relief incentive to do so since there are no income taxes in Saudi Arabia.

I was once with a Saudi friend who was making a speech at a university when four determined looking young men came up and said, we want to talk to you. What for? he asked. Well, at our university, they said, we don't have any place to pray, and we wondered if you would give us a little donation, a couple hundred dollars, so we could rent a place to pray. So he wrote out a check for \$15,000 and gave it to them. He didn't ask who they were. He just gave them a check and walked off.

This is a tradition that goes back to the seventh century. To change all of a sudden from the informal practice of that day to the practices of the present, in which one must perform due diligence, regulations, oversight and everything else that we are now demanding of donors, is a pretty tall order. I do not mean to say that we shouldn't do this. We should. I do suggest, though, that Saudis are not adapting to modern practices because we're patronizingly telling them that they ought to. The security implications of lack of oversight over charitable donations are now no less obvious to them than to us. Our wake-up call was 9/11; their wake-up call was the attack on Riyadh last May. The sense of urgency was increased last November, when it became forced on the Saudi public psyche what needed to be done about their own security problem and the world's.

When I was a deputy director for counterterrorism at the State Department, I used to attend interminable meetings with FBI and Justice and Treasury about the money leaving our country to go to terrorist activities, particularly in Northern Ireland. The PLO came in for its share of the blame too – although not Hamas back then. In the process I came to the strong conclusion that we will never stop illegal money flows. We have not done it with drug-money laundering, and we're not going to do it with terrorists' money either.



Terrorism it is too cheap, too available, too tempting ever to be totally eradicated. I'm not saying that we should give up and do nothing, but rather that the best we can do is to bring the problem down to manageable proportions. I think that we are selling the American public and the Saudis both a bill of goods when we give the impression that we can stop this altogether. Anybody who has ever dealt even commercially in the Middle East knows that there are a million ways in a global economy with open borders and electronic transfers that you can get around any group of restrictions.

We're going to have to manage it, and this is the hardest part for Americans. We want to get a problem solved, forget it, and go kick back and watch the Super Bowl. Terrorism is going to be with us for the foreseeable future. The Saudis have now figured that out too. Because we now have a common interest in countering the threat, we are together doing a great deal to contain it and should continue to do so. We should not, however, encourage unreasonable expectations.

**AMB. FREEMAN:** The religious injunction against putting strings on charitable donations, the feeling that the value of the charitable act is diminished by second-guessing how the donation is used is a very powerful one. I'm sure David Aufhauser did a terrific job of persuading the Saudis, but I think it is less that we have been persuasive than that circumstances have driven home to the Saudis that it is in the Saudi national interest to move to impose audits and standards of accountability on the use of charitable contributions.

During a visit to Saudi Arabia last week, I sat with a very senior member of the government and asked him whether the president's speech on democracy in the Middle East had been helpful or counterproductive in the context of the reforms that are very clearly developing in Saudi Arabia. The man treated the question seriously. He thought for a minute and said, really neither. He said, it's certainly not helpful, because nobody wants to follow American advice anymore. And it really wasn't counterproductive because nobody's listening to you any more. This is an indicator of the fragility of this relationship in terms of popular attitudes on both sides, despite the strong interests we share in cooperation.

**NATHANIEL KERN, president, Foreign Reports, Inc.**

I'm going to talk about Saudi Arabia and oil because that's the thing that we're most interested in here. I'd like to offer some observations about whether the kingdom's oil policies are friendly or hostile to the United States. It's fairly common for American politicians to deplore our dependence on Middle East oil, by which they can only mean Saudi oil. Saudi Arabia is our largest source of crude-oil imports, and, except for on-and-off supplies from Iraq, Saudi Arabia is our only significant source of crude from the Middle East. Our imports from Saudi Arabia comprise about 15 to 20 percent of our total imports. We get about 2 to 3 percent from Kuwait, almost nothing from Qatar and the UAE, and of course we have by law banned imports from Iran and Libya.

Part of this popular aversion to dependence on Saudi oil no doubt harks back to memories of the 1973-74 Arab oil embargo, which was spearheaded by Saudi Arabia. Another part of the aversion may stem from the notion that our ties with Israel might be



compromised by our ties with Saudi Arabia. Another more recent myth is that our purchases of Saudi oil somehow fund terrorism.

Over the past half century, Saudi oil has played a major role in advancing U.S. interests. The United States didn't become a major oil importer until 1970, but from the early days of the Cold War, it was U.S. policy that inexpensive oil from the Middle East be used to fuel the post-World War II economic recoveries in Japan and Western Europe in order to avert the kind of economic chaos that would open the way for communist influence. Even during the heated political atmosphere of the 1973-74 Arab oil embargo, Saudi Arabia never stopped supplying the fuel our military forces needed worldwide, especially in Vietnam, even though the secretary of state at the time made veiled threats that the United States would invade and occupy Saudi oil fields.

When oil prices raged out of control during the second oil crisis, spurred by the Iranian revolution of 1978-79, Saudi Arabia consistently moderated oil prices by increasing production and by undercutting the official selling prices advocated by others in OPEC. When Iraq invaded Kuwait in 1990, the first Bush administration

imposed a blockade to prevent oil from Iraq or occupied Kuwait from being sold to world markets, cutting off more than 5 million barrels from world oil supplies. Saudi Arabia moved expeditiously to ramp up production to help fill this gap, such that oil prices were lower when the U.S. military campaign to oust Iraq from Kuwait began than they were before Iraq seized Kuwait.

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Last year, oil markets met their perfect storm. A lengthy strike had paralyzed Venezuela's oil exports beginning in December 2002. Our invasion of Iraq in March terminated Iraqi production, while strikes and ethnic violence in Nigeria at the same time cut that country's production by more than one-third. Despite misgivings about the wisdom of the U.S. invasion of Iraq, Saudi Arabia, once it was convinced that the Bush administration was determined to invade, did everything in its power to minimize the economic costs to the world economy by producing enough oil to make up the shortfalls from that perfect storm in the markets. By a combination of high oil production and skillful market interventions, Saudi Arabia was able to bring down the price of oil by \$11, from \$37 a week before the invasion to \$26 two days after the invasion.

These are a few of the historical high points, but what of the future? Saudi Arabia holds one-quarter of the world's oil reserves, and alone among producers has a policy of maintaining a cushion of spare capacity, some 2 million barrels per day, for the explicit purpose of providing extra oil to the market when there is an interruption in global supplies. Without that cushion of spare capacity, the only way the oil market can adjust to a significant global supply disruption, like an Iraq or Venezuela last year, is to let prices arbitrate between supply and demand. Price arbitration can be a fairly unpleasant way to



lower demand to match a reduction in supply. Very few of us are willing to abandon our cars and take the bus just because gasoline prices are high.

The Saudis do, of course, have a business purpose in maintaining that cushion of spare capacity. Overly volatile prices give their main export product a bad reputation among consumers, but it's a costly process to maintain that cushion. At the end of the day, their leadership justifies the cost because they believe they have a responsibility that comes from a stewardship over one-quarter of the world's oil reserves, a responsibility for the security and stability of worldwide supplies, from which we in the United States benefit as consumers of one-quarter of the world's daily supplies.

As we look to the future and think of the role of Saudi Arabia in it, I'd ask you to ponder a couple of things that have occurred over the past 20 years, and some of the new realities we face. Twenty years ago we consumed 15 million barrels in the United States; today we consume 20. Twenty years ago we produced 8.9 million barrels domestically; today we produce 5.6. Our imports of crude have gone from 3.2 million barrels a day in 1984 to 10 million barrels today. The United Kingdom, which became an exporter of crude thanks to the discovery of prolific North Sea fields in the 1970s, last year became a net importer of crude. One of OPEC's leading members, Indonesia, which has been producing oil since 1893, last year also became a net importer of petroleum. China overtook Japan last year as the number-two oil consumer in the world, and its oil use has been growing at double-digit rates. It still has 200 million under-employed workers whom it wishes to bring into the global economy. That's a workforce larger than that in all of North America and larger than the EU's.

The historical record shows that Saudi Arabia's actions and interests in the oil market have been aligned with those of the United States, and last year the case was proved again. Saudi Arabia's stated intentions are to maintain that alignment of interest in the future. Our need to maintain the same alignment over the next 20 years is probably greater than it was 20 years ago. We've had occasion since 9/11 to address and air complaints to Saudi Arabia about a host of different things. Some of them have been measured and constructive, and some of them have been shrill and bordering on hate. Over time, the Saudis have responded and are responding, sometimes too slowly for us, to these complaints, whether it's terror financing, education reform or you name it.

We also should look at how some of the measures we have enacted since 9/11 are losing us friends in that part of the world. One-half of the students nominated last year for Fulbright scholarships from Muslim countries were denied U.S. visas. I just came back from Saudi Arabia and Kuwait. Everywhere you go, middle and senior officials of those countries are U.S.-educated and have a very strong affinity for America. But their kids can't get visas to come to college here; their parents can't get medical visas. They no longer want to come here for vacations because they're being told they're unwelcome. At best, they're reluctant to make business visits here. This is going to create a problem for us sooner rather than later.

I think this conference has a valid purpose in examining whether Saudi Arabia is hostile or friendly to the United States, but we also have to bear in mind that friendship and hostility are two-way streets. It may be worth asking whether our policies are friendly



or hostile to Saudi Arabia. I fear that if our policies are perceived as hostile, the Saudis are going to be successful in finding new friends.

**HUSSEIN SHOBOKSHI, president, Shobokshi Development & Trading; manager, Okaz Printing & Publishing**

Saudi Arabia is not a foe; Saudi Arabia is a friend. There are some Saudis who dislike America and its policies, of course. But I think the same number of Americans hate Saudi Arabia and its policies and are very confused about it. I cannot address this question without addressing the issue of hypocrisy. All these issues have existed for the longest time between the two countries – the issues of curricula, sermons in the mosques, political reform. They have always been there, but they were neglected. Nobody has ever discussed them openly, as they do today. We should ask ourselves, Americans and Saudis, why were these issues never raised? Why weren't there any frank discussions? Why was it always taboo to discuss reform in Saudi Arabia, educational reform, social reform?

It was simply a win-win situation. People have had a cordial relationship at a very distant arm's length, but it was a fake relationship. I think it was a "secret marriage." Now it should be out in the open. Do we want to maintain this marriage, do we want to seek a marriage counselor, or do we want a divorce? I think there is tremendous interest in maintaining the relationship, but we have to address these issues.

In today's *Washington Post* article, we see the news item about Al Haremein, the infamous charitable organization, but I don't see any reference to the discussions that took place in Saudi Arabia about Al Haremein. I personally have an article in today's edition of *al-Sharq al-Awsat*, the leading paper in Saudi Arabia, addressing the issue of managerial changes in Al Haremein. They've just fired the head and replaced him with his deputy. That's not a change, but nobody refers to these discussions. I myself have written seven articles about these issues, and I got a lot of fantastic e-mails. It made me sympathetic with Sean Penn and the Dixie Chicks. There are people who simply don't want to discuss these issues at the moment over there. But now they're being discussed, and reform is taking place.

Unfortunately, I don't see this referred to in *The Washington Post*. This is a very odd way of dealing with an important subject. It is not only a political decision. It is also a social decision on behalf of a lot of Saudis, who want to know where the money goes.

Before his status in a famous best-seller, we had a meeting with Paul O'Neill in his visit to Saudi Arabia in November, right after the events of September 11. We had the opportunity to sit with him, seven businessmen, in Jeddah. We agreed with his policies of tracking down questionable finance techniques, be it through banks or through charitable organizations in Saudi Arabia. But we begged him to have a universal policy against terror. There were traces of monies coming to white-supremacist groups and neo-Nazis in America, like Tim McVeigh's, from Central Europe, mainly from Germany, Switzerland and Austria, and from companies that were dealing with neo-Nazi organizations in America. Nothing has happened to these people.

We know that tobacco companies were involved with the Sandinistas in Central





America to secure the routes for tobacco. Nothing happened. The IRA example has been discussed already. And since Hamas was mentioned, I fully agree suicide operations are illegal. They are not even Islamic. But, guess what? Financing settlements on Palestinian land is also illegal. That's also financing terror. So we should have an equal policy on both sides.

Saudi Arabia, by the way, is not yet a nation; it's a country. There's a big difference between the two entities. We saw that clearly as Saudis when the discussions took place in what is now called the second round of the national dialogue. We had more flavors than Baskin Robbins. There were seculars, there were Shiites, there were Sufis, there were Salafis representing the mosaic that exists in Saudi Arabia today. To a large number of people around the world Saudi Arabia is black and white: women wearing black and men wearing white. The issue is much bigger than that. Saudi Arabia is the largest country in the Middle East in terms of size. It's also made up of many, many ethnic and religious sects. These were never discussed. Again, it was part of the hypocrisy that has existed for the longest time. The government has decided to address these issues head-on, and it's doing a good job. We are trying to support it, but these good stories about Saudi Arabia are never discussed.

Sermons of hate must never be allowed in Saudi Arabia, but there are a lot of them. There is reform in mosques around Saudi Arabia, and there have been a lot of firings of imams. But they give these sermons under the name of protecting religion. That should not be allowed. By the same token, I don't think a military officer or the son of a famous preacher should be granted the right under the name of freedom of speech to insult another religion. Equality, a fine and important element of democracy in America, is absent on issues like that. We as Saudis would like for America to protect that right regarding insults to Islam.

Saudis are reforming their lives, but there is still a great deal to be done – social reform, economic reform, religious reform, political reform. We need more exchanges.

The interest between America and Saudi Arabia has been extremely narrowly focused on the economic side of things. Why am I wasting my time and money in coming to America? This is my fourth visit. Because I have a seven-year-old daughter that I would like to attend an American university. I brought my brother-in-law with me. My sister is still going to school here. I have been involved in the first private college for women in Saudi Arabia, and we have seven associations – with Berkeley, Columbia, Nebraska and other universities, all in America. We are unable to recruit anybody, however, because Saudi Arabia is perceived as the devil's headquarters, unfortunately. I would like that to change, but I would like to see the same interest from America as well. There is a very dangerous message being sent from members of the American administration that is nothing short of a lie. It's simply not true. You may have read Richard Perle's book. Some dangerous messages are being sent here.

**AMB. FREEMAN:** Hussein just made a very important point, that there is a lot of selective listening going on on both sides. Perhaps we're not paying enough attention to what you're saying. Maybe you're paying too much attention to some of the stuff on Fox TV,



which, unfortunately, is seen in Saudi Arabia. That message is received directly by the people who are being denigrated, and their reactions are not happy ones. I sometimes think that if Radio Sawa were to accomplish its purpose of softening Arab attitudes toward the United States, it could all be undone in 10 minutes of watching – well, you know the shows.

#### Q&A

**Q:** Saudi Arabia supports the U.S. economy in many ways, unlike Israel, for which it's the other way around. Yet Saudi Arabia has not been able to show any muscle in its relationship with the United States. You have 1.2 billion Muslims backing you; you have the holy sites. But you are part of the Arab world, so you come to the podium and politely ask for understanding. Why won't the Saudis be a little bit tougher in dealing with the Americans? And what's the responsibility of the U.S. establishment in creating this anti-American sentiment back there? Who should take responsibility in trying to correct it?

**MR. SHOBOKSHI:** The Saudis should fix what they need to fix for their own national sake. If, as a result, a better relationship with America comes about, great. We do have a lot of fixing to do. Socially, economically, politically, culturally the Saudis need to reform, and we're doing that. Why haven't we had a better relationship with America? There, again, is the hypocrisy issue. We did not seek a complete relationship; we sought a partial relationship between our countries.

**AMB. FREEMAN:** It may be that there is the need for a grand bargain at the right time between the leaderships of the two countries, by which each will try to help its people to develop a more correct and understanding view of the other. But, at the moment, a large part of the reason for very negative American attitudes is that Saudis, until recently, didn't make much effort to reach out to the American public, and were content to manage the relationship in a very narrow band. Therefore there was no mass understanding or support to call upon when a crisis occurred after 9/11, and groups antipathetic to Saudi Arabia were able to impose their view on the body politic here. I think that the answer to this is less to ask Americans what we're going to do than for Saudis to think about what they're going to do. I'm pleased to see that some things are being done, but a lot more needs to be done.

**MR. LONG:** A number of years ago, I was the first executive director of the Center for Contemporary Arab Studies at Georgetown University. I went around with the dean of the School of Foreign Service, Peter Krogh, trying to raise money for this center, which was an academic center, not a political center. We went to all the Arab-American groups in the United States, and we did not get one thin dime. One of the things that is lacking in this country is not the noise level of the Arab-American groups complaining and polemicizing, but their support for an effort to educate the American public about the Middle East, what it is really like and what our stakes are there.

**AMB. FREEMAN:** As the president of an organization that depends on donations, and doesn't get a lot, all I can say is that the atmosphere is actually deteriorating in this regard. People are intimidated from giving. People in the region don't want to wire money because of concerns that David Authauser's successors might investigate them, and the



atmosphere in the Arab-American and Muslim-American communities is not terribly charitable toward non-Muslim groups that are not advocates but educationalists, like us. **MR. ANDERSON:** As much as there might be reason for despair, it's not the first time that it's been very bad in our relationships, and there are some significant reasons to be optimistic about at least the mid-term and longer-term future. Until very recently, there were some very fundamental differences that neither side wanted to address: political reform and anti-corruption issues. Economic reform in Saudi Arabia has been with the kingdom since its inception: what kind of a society are we going to be? There have been periods of improvement and periods of regression on this issue. Saudi Arabia has now advanced on both political reform and cleanup in ways that are unprecedented in its history. On the main issue between us, the Arab-Israeli issue, the president's Roadmap,

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which has not been implemented or supported, and certainly has not yet been accepted by everyone in the administration or the population, is a lot closer to Crown Prince Abdullah's peace plan than anyone else's.

But our energy policies are less in conflict now than they have ever been. There is a political dynamic going on in both places that is very bad right now, but it's also unnatural and unsustainable in its current state. There has got to be an improvement.

**AMB. FREEMAN:** The president has been very careful to make distinctions that not everyone in his Cabinet, unfortunately, seems to be able to make, between Islam and terrorism and between one Arab and another. It would be good if more people in his Cabinet listened to him.

**MR. AUFHAUSER:** Notwithstanding David Long's suggestion that this is all quixotic, I actually disagree with him because I've seen lives saved by the effort. I look at the money issue as a very convenient proxy for dealing with a great many more difficult issues. I also think it's doable. And it's a way of getting at perceptions and trying to reach common ground. It crosses all borders of everything we've talked about here in terms of theological teachings, in terms of what the outposts of the NGOs are doing, and in terms of taking responsibility for what happens in your own shop if you're a businessman or a banker or a lawyer or an accountant. So I view it as a very convenient vehicle to reach what we're all trying to reach here, which is a demonstrated commitment to a civilized world, one where no one supports acts of terror.

**MR. LONG:** It was not my intention to say it was quixotic at all. The focus of my remarks was that it is a mistake to raise the bar too high of what can be done and what should be done. That's not to say that we can't make real progress, but when we create expectations beyond what is realistic, we create more disappointment in the long run.

**MR. AUFHAUSER:** President Truman was urged during his second term to move more towards the center, and he made the comment, "The one thing I know is that if you match



a Republican against a Republican, a Republican will win every time.” You need to set bars high; it’s the definition of leadership. And you’ll never accomplish anything ambitious, particularly in the area of finance. No one knows better than I the infinite number of ways the international financial system can be gamed to get value across borders. I’ll define success for you. If they can no longer hit a keystroke to transfer money that kills, and we push them back to the old ways of transferring value and commodities on camels across borders, you will be safer. That is real victory.

**AMB. FREEMAN:** Several of the panelists, in speaking of the history of Saudi Arabia, made the case that very rapid change in fact is possible and has occurred and may occur again. So I take David’s remark as a caution, not a refutation of your determination that we should press forward.

**Q:** I just want to raise an issue that needs addressing: money laundering on the Internet and what’s being done about it. It’s a nightmare for me; I can hardly keep my nonprofit open because of it. I have done work teaching traumatologists in other countries, and I have been invited by money that comes from Saudi Arabia more than by money that comes from the United States. I am always working through mental health professionals. The world of the Internet is taking us through changes that are so incredible, it’s hard to tell the difference between a real humanitarian and a hypocritical humanitarian.

**MR. AUFHAUSER:** You raise a very significant issue for which no one’s found the panacea yet: to whom do you give, and are they the legitimate people that they say they are, whether they represent themselves by mail or by Internet? Shortly after the president signed his executive order and took actions of a muscular nature against three charities here in the United States, a large group of representatives of charities – Muslim, Christian, Jewish and non-sectarian – came to Treasury and said, we need some guidance. The joint product was some guidelines that went out under my name issued by the Treasury Department, not the IRS – that’s an important distinction to lawyers. Guidelines not rules. You need not follow, but if you did all of this, you’d be in the best possible position to rebut any accusation that you acted too casually, and in doing so you underwrote terror.

The list is exhaustive; no institution could do it all. And it’s expensive. Witness the Ford Foundation’s debacle about three weeks ago of having unknowingly given, as reported by *The Wall Street Journal*, significant amounts of money to organizations in Palestine that turned out to be diverting the money to a wrongful purpose. You can see how even the largest organizations can be fooled. So there is a move afoot right now to try to create something akin to a trade association or a clearinghouse and to get some funding for it so that there can be at least a vetting organization available to charitable giving. This will give people more assurance that they’ve done the right thing in their due diligence about who they give money to.

It’s a very significant issue, and we’re very concerned about it. And it’s not just a U.S. issue. I’ve had personal contacts from people abroad in the Gulf who’ve said, I want to contribute a lot of money to libraries and schools – my euphemism – in Palestine. I want to fill the void of the civilian default government in Palestine and I want to make sure none of it gets anywhere else. How do I do that? It’s a significant issue, and it



deserves a lot of attention from all of us because charities are more important than governments.

**Q:** In the early 1990s, I was in the Middle East going about research on the Gulf War, and one of the most perspicacious statesmen I met was Abdul Karim Al-Iryani. He's a four-time prime minister of Pakistan. He told me that the United States will help Islamize the Middle East governments, and it will start with Iraq. So it is better for them to try to be prepared to deal with Islamists in power. Now it has started in Iraq. We have to deal with Islamists now, having gotten rid of the secular government.

The second thing is a definitional problem. Is there still the opportunity to talk about who the terrorists are and why they are terrorists? I was born in India. We had statues made of terrorists who went on suicide bombings and killed the British. What is Hamas doing differently now? I think it is something noble they are doing. Educated people are sacrificing their lives to free their countries. That is what we did. And now the United States has taken up the fight of Sharon with Hezbollah. Who are the terrorists? How do we define terrorism? Who are the freedom fighters? And why are these people against us? The other question is, are we going to hasten Islamization of the Middle East?

**MR. LONG:** The basic difference between a terrorist and a freedom fighter is what side you're on, period. There is no legal definition of what a terrorist is, because no country will allow a legal definition to dictate its response to what is basically a political question.

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In the absence of that, you have to prosecute things like murder and kidnapping and hijacking if you want to go to court. We have laws in our country, the Patriot Act being the main one now, about terrorism. And we mention terrorist acts, but we don't define terrorism.

On the other question, we're looking at Saudi Arabia and talking about reform, and we assume in this country that reform means after the doctrine of Thomas Jefferson. We talk about moderates and liberals. I have never met a Saudi who is a liberal. Saudi society is conservative, period. The difference is between those conservatives who want to conserve tradition and have no change, and those conservatives who believe that Islamic law can be compatible with modernity and change. So the reforms that I think will ultimately take place in Saudi Arabia will be those that have to accommodate change and tradition. What we're seeing now is a struggle between those who do not want to change and those who do, but those who do are still products of that same very basic conservative Islamic society, not the teachings of Thomas Jefferson. When we get beyond that to realizing that a secular, Western, democratic reform movement is just not going to happen there, we'll all be the better for it.

**MR. SHOBOKSHI:** That's one of the big misconceptions about who's on which side in





Saudi Arabia. We don't have statistics to measure public opinion. I wrote an article in June for which I was banned for six months. The article predicted a new Saudi Arabia: women driving, people voting, new ulama in the Grand Council of the religious authority, transparency of financial institutions. There were 37 different points that were all at the heart of the reform issue. I got 3,769 emails. Sixty-five percent of them were positive; 35 percent negative. Yes, Thomas Jefferson is not going to be copied, but we have small "t" Thomas Jeffersons in the Islamic world.

A very significant thing took place on Saudi TV last Ramadan. A satellite station, MBC, owned by Saudis, which is widely available, aired 30 daily episodes of a dialogue between an American Muslim cleric and four Saudis. That was an eye-opener for many Saudis. An American, clean-shaven, talking about Islam to Saudis? Saudis do not have an exclusive franchise on Islam. Islam is a global religion. There is Malaysian Islam, Indonesian Islam, Turkish Islam, Moroccan Islam, Egyptian Islam and Saudi Islam. I believe there are enough voices in Saudi Arabia now asking for a wider range. We have been told for the longest time that our plate of the day is just the soup. Islam is also a grand buffet that you can take many opinions from. We need to open up too, and that is happening today.

By the way, as far as terror is concerned, its pretty straightforward: if somebody occupies your land, he needs to get out.

**Q:** In the run-up to the U.S. invasion of Iraq, there were a lot of questions about how helpful the Saudis were being, and were we able to use facilities there, and was the cooperation what we expected from a friend? People have said since then, yes, the Saudis did give the United States much of what we needed. Could you go through a checklist for us, Ambassador Freeman? I think we Americans should know how much really did happen in terms of Saudi support for us during that critical period.

**AMB. FREEMAN:** The Saudi leadership confronted the same dilemmas that the Turkish leadership confronted; 97 percent of the population was adamantly opposed to any form of cooperation with the American invasion of Iraq, notwithstanding the fact that probably an equal percentage of Saudis despised Saddam Hussein and were happy to see him overthrown. They did not agree that an invasion by Americans was the appropriate way to do that. Given this popular animus, in the case of Turkey there was a vote in the Parliament, which ultimately withdrew support and cooperation. In the case of Saudi Arabia, Saudis rather typically finessed the issue. Without saying very much at all publicly, they allowed a gradual expansion of the Air Force presence at Prince Sultan Airbase in Al Kharj. They opened some additional facilities in the north to Special Forces operations in support of the invasion. They did not put restrictions on the use of the original Southern Watch operation conducted out of Al Kharj in support of bombing runs over Iraq, and they allowed tankers and refueling and other logistical support to go forward. They did all of this without saying a word. I think we should respect the fact that they found a way to stand with the United States despite the fact that this was politically very risky in the kingdom.



**Q:** I was in Saudi Arabia on 9/11 and had a lot of support from the Saudis that I interacted with there. But almost the next day, it was proposed to me that the reason there were so many Saudis on the airplanes was because al-Qaeda wanted to break the relationship between the United States and Saudi Arabia. Since then, as I've traveled back and forth to Saudi Arabia, I noticed that my reception in Saudi Arabia went downhill significantly until last May. In the relationship between America and Saudi Arabia – America based on freedoms, and Wahhabi Islam based on people being forced to follow the same rules – how can we overcome our differences?

**MR. SHOBOKSHI:** As you will notice from my brief bio, I went to school at the University of Tulsa in Oklahoma. I once tried to get into a lecture at Oral Roberts University, but I was not allowed in because I had facial hair. I'm not allowed into some places in my own country because I don't have enough facial hair. I saw a very important transformation taking place in the southwest of America, from the Reagan Democrats to the Bible Belt, and it is playing a very important political role in the administration and in other parts of America. Is that America? I don't think so. Saudis are trying to find a more tolerant way; and it's out there. They're trying to bring it into the mainstream. Obviously, that has political consequences, but it's going to come. Some of the practices that are being promoted are very troubling, specifically towards women and youth. But they are based on tradition, not on the religion.

**MR. LONG:** There's been a lot of debate in the United States about what religion makes people do. A psychologist at George Mason University named Rubenstein has written a very insightful piece on the political and psychological causes of terrorism. He makes the assertion that all religions have within their theologies enough alternatives for peacemaking and warmaking that anyone who wants to be a peacemaker can find something in

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**Around the world, including in the United States, there are those who cling to the authority of tradition because they're afraid of this new world in which there are no absolutes . . .**

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their religion to justify it, and anyone wants to be a warmaker can find something in their religion to justify it. Therefore, it is a futile effort to go searching through the texts of the Talmud and the Quran to try to prove that your adversary is a warmaker and that you're a peacemaker.

A lot of this kind of discussion is futile. When I first went to Saudi Arabia, I used to listen to the sermons

in the mosques. I couldn't go inside because I'm not a Muslim, but I could listen to the loud speakers. They would say pretty much the same things back then (1966-67) that they're saying now, but nobody was listening. If you really had a bellyful of rage back then, you became a Nasserist or a Baathi. I submit that if Osama had been born 40 years earlier, he would probably be a Nasserist, an Arab nationalist, because the thing that was bothering him was not something he read in a text. It was modernity hitting a country that had gone from roughly the eleventh century to the twenty-first in seven decades. This is stressful. Under this stress, you can find something in any religion to justify either violence or peace.



Around the world, including in the United States, there are those who cling to the authority of tradition because they're afraid of this new world in which there are no absolutes, in which you have situational morality and moral relativism, and they want an authority. In Saudi Arabia, you have this dichotomy between people who cling to tradition and people who want change. I submit that both are necessary, and that the real question for the leadership is, how can you have policies that don't get so far behind the people that you get overthrown, or so far ahead of the people that you have a revolution? That is the challenge for Saudi Arabia.

**AMB. FREEMAN:** It was exactly that concern, of course, after the fall of the shah, that led the kingdom to move too far in the direction of accommodating religious extremism.

**Q:** How would you rate the kingdom's FIU, the financial intelligence unit vis-à-vis those of other countries?

**MR. AUFHAUSER:** The Egmont Group is an informal gathering of financial intelligence units from around the world. It now numbers close to 69 or 70 countries. The Egmont Group thus far is a grave disappointment in terms of its utility in the war on terrorism or criminal misconduct. But that's changing. There are active and affirmative dialogues. In terms of Saudi Arabia's FIU – maybe I'm going to show my ignorance – until very recently, there were none. So there's no need for a rating. One of the things I failed to mention, which was very productive, is that a group of the Mabarrat was over here in Washington within the last 60 days going through extensive financial forensic training by Treasury, IRS, CID and FBI officials. So we're assisting them in beefing up their capabilities to mine financial data, which is one other thing I'll say about the war on terror's financing. It's not really about asset seizures, it's an IBITDA analysis to try and deal with cash flows. One of the things we discovered, however, was that the financial information, once you got your hands on it, had integrity that far exceeded any other integrity that you learned in the intelligence field in the area of terror.

Stating that differently, all the intelligence that we get here is really suspect. It's the result of treachery, deceit, bribery, interrogation or in some places, torture. But the financial records are remarkably revealing. So when Khalid Shaikh Mohammed was seized, what was equally important were the financial records that were seized. Equally important were revelations about how his part of the organization was banked and who had complicity.

**AMB. FREEMAN:** One of the deficiencies or results of the speed with which Saudi Arabia has emerged into the modern world is that there are not a great number of functioning institutions in the kingdom. There are, instead, leaders with entourages who are able to muddle through. The exceptions tend to be in the financial area – SAMA, the Ministry of Finance, of course Saudi Aramco, a corporation that is run on private standards, and a few others. But, generally speaking, my impression of the ministries in Saudi Arabia is that there are no institutions. If the minister leaves, there's very little that he leaves behind him. His successor would have to begin, if not from scratch, pretty close to it. So the Saudis are being challenged to create institutions where they have had none. So far their performance is somewhat uneven, I think.



**Q:** Several speakers have noted that we are seeing a decline in the American presence in Saudi Arabia. At the same time, we are hearing about progress in the negotiations between the United States and the Saudis over financial and commercial issues that would lead to the Saudis joining the World Trade Organization. Certainly increased American business presence in Saudi Arabia would probably assist in strengthening the relations between our two countries. Yet there are a number of problems that are still there. We know that there are reforms under way – there is a new investment law, there is talk about allowing American or foreign companies to purchase land in Saudi Arabia, and so on. There are still a number of things that will have to be reconciled between Sharia law and international commercial and banking practices. You will have to deal with crony capitalism in Saudi Arabia, where you have members of the royal family and certain business groups who have virtually sewn up parts of the economy. What prospects do you see for really opening up the economy in a way that would encourage American business, particularly companies that are not Fortune 500, to want to come and invest and do business in the kingdom.

**MR. KERN:** There is a lot of progress towards opening up, but one of the central issues in the relationship is the visa policy that we have of excluding Saudis. That's going to put an increasing chill on the relationship unless and until it's fixed.

**MR. SHOBOKSHI:** I second that fully. A lot of Saudi businessmen, Saudi employees and Saudi students who want to learn more about how to develop their organizations and businesses are prevented from doing that, at least with the United States. As far as the WTO issue, I think that it's the best thing that could have ever happened to the business community in Saudi Arabia. Even if we don't join the WTO, the process itself has been very healthy in addressing a lot of the troubling issues that relate to the business community. Banks, insurance companies and other organizations are still very limited. Saudi Arabia is probably the most under-banked economy in the world, because the banks have been an exclusive club for certain business groups. Saudi Arabia is a free business and economic system, but it's not an *open* economic system, and there is a difference between the two. We need to address small and medium businesses with fervor and seriousness. We have not been doing that. This will change; Saudis need to be employed. We have one of the highest unemployment rates in the Middle East. The only way to do that is to open the economy. It's not a matter of job replacement by the Saudization process. It's about job creation, and that can only be done with more liberal economic laws and regulations.

**MR. LONG:** There is a common perception in this country that there's a royal family that's corrupt and then there are all of these individuals underneath who are being penalized, except for a few cronies. Everybody in Saudi Arabia is a member of an extended family. If you're not a member of an extended family, you're not a Saudi. Because of that – and the fact that it's a relatively closed society – if you go to a wedding in Riyadh of an Otaybi and an Annasi, 90 percent of the people are going to be Otaybis and Annasis, and the others are going to be business associates and classmates and the like. Because of the structure of the society, very often what we condemn as cronyism is “familyism.” You owe respect to your family elders, regardless of who you are. So to the degree that Hussein is talking about opening up the economy, regulating business and so forth, I totally



agree. I think that the progress is positive. But the society itself will change very slowly over time and, in effect, this is one of the major causes of stability. The extended-family-based society has to be taken into consideration when you're talking about commerce or economics or even politics.

**AMB. FREEMAN:** The WTO accession process to which I referred at the outset will require Saudi Arabia to enact about three dozen laws. Two-thirds of those laws have already been enacted. So the progress in terms of conforming the economy to the requirements of openness that are now the global norm is, much farther advanced than many people realize and should come to a head within the next several months. At that point there will be some fairly wrenching changes to be experienced by capitalists in Saudi Arabia, whether they are asabiya capitalists or others.

**Q:** Mr. Kern and Ambassador Freeman have said that visa applications by Saudis and other Arab citizens as well have declined. Mr. Kern has gone further, saying that this will create problems in the future for the United States. Could you elaborate on these points?

**AMB. FREEMAN:** Visa applications are down to well below 20 percent of what they were. But the approval and refusal rates have not changed within that smaller number of applications. So when you ask the Department of State Bureau of Consular Affairs, have you changed the standards, they will say no, we are issuing roughly the same percentage of visas. What they don't say is that the workload is more than 80 percent less than it used to be because people don't want to come to the United States or are intimidated by the prospect of humiliation if they do come.

**MR. KERN:** Chas. may be more privy to statistics and I to anecdotes. The typical story would be that a student applies or is admitted to university in April for September arrival; a visa is not issued until November or December; the student elects to go elsewhere. So they may be approving visas, but it would be better if they'd do it on time. The other thing is the chilling effect; that someone is denied a visa or is given a visa; he lands at Kennedy Airport and is looked at with great suspicion; he says to an immigration officer, I've got a connecting flight in three hours; and the immigration officer says, cuff him. It may be rules, it may be attitudes, but there's obviously a pervasive problem. I imagine that we can accomplish all of our security procedures without being gratuitously insulting and humiliating to people who want to come here.

**AMB. FREEMAN:** It would help if two things were done. These are policy suggestions. First, if the United States and the GCC or perhaps the Arab League, agreed on a standard English transliteration of Arab names so that in passports names were always transliterated the same way. Second, typically in Saudi Arabia passports have four or five names: the given name, the father's name, the grandfather's name, maybe the great-grandfather's name and the tribal or place name. American records for Arab visitors have three names. Since the number of Arab names is very limited, the possibility of misidentifying someone is extremely high. There are probably 30,000 people from the same country with the same name if you have only three names. If you take it to five, there might be three. Therefore, part of the problem has technical fixes, but the political effects of it are not technical, they're emotional.





**Q:** These problems have existed in the kingdom since its inception, but only after 9/11 have they become an issue. Is there a sense of that in the kingdom and elsewhere?

**MR. AUFHAUSER:** My own judgment is that the two bombings – in May and November in Riyadh – had a dramatic effect on the focus on al-Qaeda as a common enemy, and I think all stops have been pulled on the joint effort to combat al-Qaeda. Before that time, as I said in my opening statement, if I faulted the government of Saudi Arabia on the issue for which I was responsible, it was that I found them to be reactive rather than proactive. And the pace was disappointing. But they certainly have zeal on al-Qaeda for understandable and indisputable reasons. But this is not just al-Qaeda; there are a lot of terrorisms writ large, and no country should countenance bankrolling it.

So my first prescription remains a rather unremarkable, but still absolutely necessary statement of principle: it's against the law in our country or any other to give money with the intent to kill children. Someone may say that sounds sentimental and foolish, but if you only set modest goals, you're only going to accomplish modest things. The whole concept of terrorism changes the DNA of war; and there's now a premium placed on the death of civilians. We have to change that ideology, and brave statesmen have to say they're going to change it.

**MR. ANDERSON:** This is a relationship that has gotten both better and worse over time, but the trend line for a century has been a positive one. As the Arabs say, God is truly with the patient. I believe that there have been some real distortions in the relationship in the previous few years. You cannot dismiss the fact that a political faction in the United States, which has always been opposed to the relationship and has sought to diminish it, is now in the ascendancy. But political balances in the United States are never static, so they're likely to go back. There are political factions in Saudi Arabia that have always been opposed to a quality relationship with anyone outside Saudi Arabia or outside the world of Islam. They were briefly in the ascendancy in Saudi Arabia. I believe that trend has been turned around, and that the positive trend will continue overall. My prescription would be to continue to do the sensible thing and count on it improving.

**MR. LONG:** The basis of any longstanding relationship is mutuality of mutually perceived interests, and I think that the United States and Saudi Arabia have had that over a long period of time. There are going to be ups and downs. There have been downs that at the time seemed worse than the down we're in now. The change came after the oil embargo. At that time, I really did believe that many Americans feared that the United States might sell Israel out for a barrel of oil. I don't think we would have, but that was the fear. That sentiment has also waxed and waned since then, but it wasn't there before 1973. It will probably wax and wane in the future. But because of the strength of our mutual interests, I think we're going to weather this and continue in a strong relationship.

**AMB. FREEMAN:** Nat, what should we do for a barrel of oil?

**MR. KERN:** You've got to buy them, that's all. Nothing special. I think we're at a point where increasingly the barrels the world will need will come out of the Gulf.

**AMB. FREEMAN:** Are you anticipating, as some people say, 20 million barrels a day needed from Saudi Arabia in 2020, instead of the 10 million produced today?

**MR. KERN:** I think the farthest the minister was willing to go was 15 million.



**MR. LONG:** We told them they had to do 20 back in 1973.

**MR. KERN:** It's been perennial, but I think things have changed and it's becoming increasingly critical. In Saudi Arabia and in Kuwait, the incredible difference we've seen over the past couple of years is in the openness of discussion, the kind of debate that Hussein is talking about. It's a big change, and it's all for the better.

**MR. SHOBOKSHI:** Twenty years ago, Saudis were talking about the importance of educational curriculum reform, and there was a lot of talk about economic and social reform. These issues were discussed before September 11. They are discussed more openly now, of course, but these were Saudi concerns discussed without the blessing of the government, and they need to be discussed further until they are accomplished.

The next two years are going to be crucial in U.S.-Saudi relations. Economic factors are good. The boycott has eroded, and American products are selling at an all-time high over there. People are still wanting to study in the States. They are denied visas – that's another issue – but the desire to come and study is still there. These are important factors to build on, and we should not neglect them. However, I was heartbroken that I didn't hear any mention of the Israeli-Palestinian issue in the State of the Union address. We Saudis and other Arabs don't think the "man of peace" will sign a treaty anytime soon. Maybe the bribery scandal and a change of leadership in Israel will bring that issue more onto the table. It needs to be settled before a complete harmony of the relationship between Arabs and Americans will take place.

**AMB. FREEMAN:** Hussein, thank you again for reminding us that the heart of the poison is the Israel-Palestinian conundrum. When I was in Saudi Arabia, I was told by Saudi friends that on Saudi TV there were three terrorists who came out and spoke. Essentially the story they told was that they had been recruited to fight for the Palestinians against the Israelis, but that once in the training camp, their trainers gradually shifted their focus away from the Israelis to the monarchy in Saudi Arabia and to the United States. So the recruitment of terrorists has a great deal to do with the animus that arises from that continuing and worsening situation.

We could have had this discussion, hypocrisy permitting, at any point in the last several years. The expertise has existed among those at this table. What is different is the interest in the United States, which is high. That is encouraging. Someone asked what Saudi Arabia should do to address the low level of understanding. I would say one thing that Saudis should do is continue the process that they have begun of opening the kingdom to foreign scrutiny by the press, by experts, by others. The more people they let in, the less they will be accused of imaginary faults and the more criticism will be realistic and focused on things that are helpful to them, as they adjust their society.