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# How to Reform Saudi Arabia Without Handing It to Extremists

A Panel Discussion

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HOW TO REFORM SAUDI ARABIA WITHOUT HANDING IT TO EXTREMISTS

EDITOR'S NOTE:
The Middle East Institute and Foreign Policy magazine hosted a panel to discuss an article written by Professor Greg Gause titled, "How to Reform Saudi Arabia Without Handing It to Extremists." The article took the form of a memorandum addressed to Crown Prince Abdullah noting that, "To survive, the monarchy must battle the militants, reassure the religious establishment, and give the middle class a taste of democracy." The panel, which met in front of a full house and was broadcast live via C-SPAN television, was held at the Carnegie Endowment for International Peace in Washington, DC on September 16, 2004.

We are pleased to share a transcript of the proceedings.

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**HOW TO REFORM SAUDI ARABIA WITHOUT HANDING IT TO EXTREMISTS**

**David Chambers:** For our discussion today on Saudi reform, we have assembled a panel of people, each of whom has multiple sets of credentials to speak here as an expert on Saudi Arabia. My name is David Chambers, Director of Programs at the Middle East Institute, and I'm moderating today because of my own experience in Saudi Arabia, having been based in Jeddah most recently with Arthur Anderson.

This panel arose initially out of the article "How to Save Saudi Arabia" in the current issue of *Foreign Policy*. Given the U.S.-Saudi relationship and the U.S. presidential elections around the

corner, as well as Saudi elections, which now seem a little further off than before according to last weekend's news, this article and this panel could hardly be more timely.

The author of "How to Save Saudi Arabia" is Gregory Gause. Greg is professor of political science at the University of Vermont, who specializes in Gulf countries and has written a book on Saudi Arabia and its neighbors called "Oil Monarchies." Usamah Al-Kurdi is currently a member of the Saudi Majlis Al-Shura, or Royal Consultative Council, and president of his own company. He has held numerous posts in the Saudi government and associated organizations, including the post of Secretary General of the Saudi Chambers of Commerce. James Placke is a senior associate at Cambridge Energy Research Associates whose Washington office he headed for more than a decade. Previously, Jim was a Foreign Service officer, who held the post of Deputy Assistant Secretary of State for Near Eastern Affairs during the Reagan Administration. Thomas Lippman is an adjunct scholar at the Middle East Institute, whose latest book, "Inside the Mirage," was published earlier this year. He is a veteran Washington Post journalist, and in fact, wrote the Washington Post stylebook. I would also have you note that both Jim and Usamah are members of the executive board of the National U.S.-Arab Chamber of Commerce here in Washington.

Greg's article probably raised more questions than it answered, as any good article should, with an underlying theme that applies not just to Saudi Arabia but all nations, namely the issue of legitimacy through governance. Two questions arise out of that that I would ask you all to keep in mind today. First, how does a nation balance internal security with democracy? Second, how does a nation balance immediate security with long-term security needs? So Greg, let's start with you. What are the recommendations that you made in your article, please?

**Gregory Gause:** Well, I was kind of in the middle of what you usually hear about Saudi Arabia in the United States, which is either they have to change completely, or they shouldn't do anything at all, and they're just fine the way they are. I thought some of the most important things that the Saudis had to do, regarding political stability and political development, were: one, the security situation.

David, you mentioned the trade-off or the question about balancing internal security with democracy. I'd argue you can't have anything approaching democracy unless you have internal security. I mean the one is the prerequisite of the other. If you don't have internal security, as we see in Iraq, you can't have people voting, you can't have people practicing open politics. So, I thought that was the first and most important task in front the Saudi regime. I don't think that that is anything that they don't know. They've certainly in the last year and a half taken a much more serious attitude toward this. The fact that there are regular confrontations now between the Saudi security forces and extremists is an indication that they are pushing the issue. They've got to do a better job. But, I think that they realize that that's the issue in front of them. I think also in the midst of the security fight, the Saudi leadership can't lose sight of the fact that there is a demand from the Saudi population, which is increasingly educated, increasingly literate, increasingly urban -- all social indicators in other parts of the world and other countries that have preceded increased demands for increased political

participation.

There are demands from the Saudi population. I think a couple of the most important issues in front of the Saudis immediately are economic transparency. People want to know where the money goes. There is one school of thought that says that in oil countries, because the government doesn't have to tax people, people aren't as concerned about politics. I'd argue in fact maybe just the opposite. Because in an oil country like Saudi Arabia, so much of your everyday life and so much of your economic security is based on decisions the government makes, you have in many ways even more of an interest in having some say over what the government does or at least knowing what the government is doing. So, economic transparency in times of oil boom is important. People want to know where the money is going. In times of oil bust, people want to know, perhaps even more, where the money is going. I think the Saudis have to use their oil windfall of the last few years in ways that respond immediately and publicly to public needs, particularly in the area of infrastructural development.

The Saudi population has grown enormously. The demands on the Saudi infrastructure in terms of water, electricity -- basic elements of modern life are growing, and the infrastructure has to respond to them. There are problems in that regard that need to be dealt with. I also think the Saudis in the midst of the security crackdown shouldn't loose sight of the fact that the table has been tilted in Saudi Arabia for decades in terms of political organizations and political expression. I think they should give those on the more reformist side the same kind of treatment that Islamic activists receive. I think that if you are nonviolent and calling for political reform, that's no reason to be thrown in jail. The Saudis have to redress .. I think in their own interest, the Saudi government and Saudi family has to redress that balance and allow other voices to be heard and to organize and get themselves ready for more participatory public political life, or what you're going to see when things open up -- elections and the public sphere in general are going to be dominated by people who are of the more extreme socially conservative side of the spectrum in Saudi Arabia.

Finally, I was cautious on the whole idea of elections. I think municipal elections are fine. I think they should actually move to electing everybody on these councils. First, we've got to see what these councils do. I think they should have some real powers, and we're not really sure what they're going to do yet. I think a move to national elections, like the Majlis Al-Shura, would be counterproductive from the point of view of both reform and stability in the short-term. I think that is a long-term goal. I don't think that is immediate. I think actually that too quick a move to that could set back other elements of the reform agenda.

**David Chambers:** Greg, thank you very much. Dr. Usamah, you sit on the Consultative Council of the King, so if I could ask you with events in the Middle East having changed so much, so quickly, how did Greg's recommendations for a seething Saudi Arabia stack up for you?
I wonder if I can ask in light of the last seven days' news, in particular bombings in Jeddah, lawsuits filed by the New York and New Jersey port authorities against the government of Saudi Arabia, a second postponement of the Saudi municipal elections from this November to February 2005, and yesterday's State Department report rebuking Saudi Arabia for religious human rights violations and placing it in the company of countries like North Korea and Sudan -- do events like these change or reinforce Greg's recommendations in your opinion?


**Usamah Al-Kurdi:** David, thank you very much. Ladies and gentlemen, good morning and thank you all for being here today. Let me tell you what we are doing about reform first before I attempt to answer that question and comment on Professor Gause's thoughts.

Reform is a serious issue in Saudi Arabia. The first reform steps took place in Saudi Arabia in 1993. So, it's not something new to Saudi Arabia to actually start planning and executing its reform plans. In 1993, the law to establish the Shura Council, or the Consultative Council, was issued, and by the way, the Shura Council is now a member of the International Parliamentary Union, recognizing it as the parliament of Saudi Arabia.

In that same year, the Basic Law of government of Saudi Arabia was issued. The law establishing regional councils, there are 13 different regions in Saudi Arabia. Because of this law, these regions now have their own councils.
Reform steps followed after that in the social, political and economic area. I don't want to give you a lecture about all these events, but it is very important that we recognize that this is now a policy of the government of Saudi Arabia. Some very serious steps have been taken. Not least of them is the change in the Shura, or the Consultative Council law, that gave the Consultative Council more authority and more power. This only happened three or four months ago. The reform steps that took place in Saudi Arabia were quite extensive.

Personally, I've been following these steps in the past 10 years, and I've actually been recording them. Not last, of course, of these reform steps is the municipal elections. We have seen other reform steps in other areas. We have seen in the political area the extensive licensing - I don't know if licensing is the correct word -- of several society organizations in Saudi Arabia. We have seen many initiatives from Saudi Arabia to develop, reform and for cooperation not only in the GCC countries but also in the Arab world. Let's not forget that Saudi Arabia, 20 years ago produced the Fez initiative for peace in Palestine. We have created two human rights committees, one the private sector committee, and very soon the government committee is going to be started. We have created the National Dialogue Center, which has been in the past few months addressing extremely important issues for the future of Saudi Arabia.

Again, I can talk for a long time about economic reform. Perhaps I will make later comments on the economic development, but basically, we have been doing three things in the economic area. One, we have been issuing new laws and reviewing existing laws to try to support our economic growth. We saw the issuance of the capital markets law and the insurance law. We saw the labor law being rewritten to address the changes that are taking place in this century. In another area, we have been creating new organizations to help economic growth. We have created the Supreme Economic Council to fast-track economic decisions. We have established the new investment authority and created the tourism authority, hoping to develop tourism as an area of new investments in Saudi Arabia.

That brings me to the third area of development in the economic sector. We have opened up

many different new areas for investment for foreign and domestic investors. We have seen the privatization of water desalination and power generation. Mineral resources are receiving a lot more attention now. It is now possible for the private sector to invest in higher education. So, there is a long list of railroads, toll roads and other areas of investment because I think as much attention that you can give to economic growth in Saudi Arabia, the more likely we are to succeed with the reform plans that we have.

Of course, we are addressing many different areas and many aspects of social life as admitted by the representatives of the Congress here who have visited Saudi Arabia lately. The textbooks in Saudi Arabia now satisfy the opinion of many countries around the world. We have seen a lot more attention to child abuse and domestic violence. We have now issued a law to provide Saudi and expatriate labor work with medical insurance. We have reorganized our charities to direct all their services within Saudi Arabia, except for one organization under government supervision that is authorized to do international charities. A lot of attention is also being given to small and medium-sized enterprises. We think creating jobs is one of our most important challenges in the future.

The reorganization of the Saudi Credit Bank took place only a few days ago. This is where some of the government budget surplus has been announced like it would be used something to the term a billion dollar to expand the operations of the Saudi Credit Bank. This bank used to have a capital of $50 million. It's now almost a billion dollars. The idea again is to support small to medium-sized enterprises.

Let me add a little bit here and try to address one point that Professor Gause asked, which is the use of the surplus from the increase in the price of oil. The government announced only a week or 10 days ago that 60 percent of the surplus is going to go to the payment of the public debt. The public debt is in the tune of about $200 billion I think. A large portion of the surplus will be used to pay that public debt, and it is all domestic. The other 40 percent of the surplus is going to be used for: one, development projects in area of education, the area of health services, the area of roads and similar development projects. Another part of that surplus has been planned as I said earlier to go to the credit bank. But, a major portion, something in the order of $3 billion is going to the issue of housing. We have a real estate development fund, and now, they have $3 billion more money to develop the housing area. I don't want to spend a long time talking I'd rather be answering whatever comments you or the panel might have here. Thank you very much.

**David Chambers:** Just a quick question. How big is the current public debt that at least is being intended to pay? How much is going to be paid out?

**Usamah Al-Kurdi:** The current public debt is less than $200 billion. The surplus is to the tune of $30 billion dollars. Sixty percent of that will go the public debt. Now, more important than the actual amount of money that is going into the payment of the public debt, is the fact that servicing the public debt will be reduced that much. So, this frees more of the government budget to do projects and create more jobs rather than pay to service that debt.

**David Chambers:** Greg, that is an amazing picture that Dr. Usamah has just given us. Does that mesh with your own recommendations? What is your take on that?

**Gregory Gause:** Nothing in the article is foreign to what has been talked about in Saudi Arabia over the last decade. In fact, I cribbed most of it from Saudi friends who were kind enough to let me sit in on their conversations over the years. I think that there is recognition in Saudi Arabia the direction that things have to go. It's a question of speed and implementation. The government is extremely cautious. That caution has served the Al Saud family well in the past, but they are facing these demands, the immediate ones about security, which I actually think they are pretty well equipped to handle. But, the longer-term ones, which are new in the Kingdom are about demographic pressures and economic changes. There I think it's not a question of recognition; it's a question of action. What Dr. Al-Kurdi has set out is that there have been some actions. The question is will there be more, will they be sustained, and will higher oil prices lessen the belief in the need for substantial changes, which I think would be very problematic for the Saudis in the long-term.

**David Chambers:** Well, we'll definitely visit oil and oil prices in just a moment. Thomas, you have traveled extensively in the Kingdom, and you recently published a book on U.S.-Saudi relations in the 20th-century, "Inside the Mirage." What were your thoughts on Greg's article when you read it? What do you think the Saudis need to do? How important is Saudi Arabia's relationship with the U.S., especially when we make it so hard for Saudis among others to even enter this country?

**Thomas Lippman:** First, thank you for inviting me to participate today, and I want to salute Greg Gause for an article that meets the criteria that were always drummed into my head when I was in daily journalism -- accuracy, brevity and clarity. It is now 28 years since I first visited Saudi Arabia. As everyone in this room knows I'm sure the country has undergone probably the most spectacular, mind-bending, physical transformation that any society has been through in such a compressed timeframe in human history. It's always amazed me that the society did not come unhinged but retained its social cohesion in the face of what has happened.

Now, as Usamah pointed out, as he said, there's now a quiet visible, even to the most casual observer, a quiet visible movement toward what I would call social and political change, not at the same pace or the same scope as the physical change. But, it's unmistakable. It's happening not because Crown Prince Abdullah said it should happen but because it is human nature. You have a much different population in Saudi Arabia now from what you had a generation ago. You have a lot of educated women, who are clamoring for a larger place in the social and economic life of the country. You have more people with more access to more information by many channels than you ever had in the past.

The issue as Professor Gause's article points out clearly is how to manage that change in ways that meet popular aspirations while maintaining stability. I would just offer a few brief

comments on Professor Gause's article. For those of you who haven't seen it, it takes the form of a memorandum to Crown Prince Abdullah on certain things he can do or perhaps not do in order to achieve the goal of progress while maintaining stability, such as for example, expand religious tolerance or win the battle of ideas, to give the Consultative Council a higher profile. I was quite interested to see you come out and in your list of recommendations, include in so many words a very blunt recall Prince Bandar. Now, this I think is probably accurate to say, that this reflects what a lot of your Saudi friends have been telling you because it's no reflection on Prince Bandar, a witty and energetic and quiet entertaining gentleman. Saudi Arabia, in order to maintain its valuable and necessary relationship with the United States, now needs a different kind of ambassador. I heard this from many people in Saudi Arabia. Days when the talents of a Saudi ambassador were needed to get AWACS sales through a reluctant Congress are long in the past. What's needed now is to build or rebuild the relationship between Saudi Arabia and the American people or as Greg Gause said, "Now you need someone who can sell Saudi Arabia as a reliable partner to the American public." Prince Bandar, whatever else you think of him, is so distant from the American public that I don't believe he can fulfill that task.

I would add one recommendation that's not on your list of recommendations to the Crown Prince. That would be to settle the succession issue. Get out in front with the succession issue and show the Saudi people that an energetic and magnetic personality will come after. If you think of Abdullah and Sultan as the Andropov and Chernenko of Saudi Arabia, you can see that it won't be long before they need their own -- I don't want to say their own Gorbachev -- but their own vigorous leader for a new generation. I would recommend removing the uncertainty about this and letting the Saudi people know that someone whom they trust, admire, respect and are willing to follow is waiting in the lines. Then, I would just add, I believe and I said it in my book, that for all the differences between the United States and Saudi Arabia as countries and societies, it's hard to imagine two countries that were more different when the relationship between them began in the early 1930s -- socially, economically, politically, religiously, artistically -- anyway that you could imagine.

Through great efforts and a great deal of patience and a great deal of energy and through some mutual necessity, this relationship has been made to work for both countries. I think it'll be valuable to both to continue to do so. I would just say to people in the United States that in your understandable impatience with the way the Saudis do business and the way they run their lives and the way they structure their society, it's useful to keep in mind that the unified Kingdom of Saudi Arabia is 72 years old. Where were we 72 years after the adoption of the Constitution in a comparable stage of our national development? We were preparing to fight a civil war over the slavery that sustained the economy of half of our states. We were busy wiping out our indigenous population, and women couldn't vote nor would they for decades afterwards. It's useful I think for Americans to evaluate progress, change, reform, whatever you want to call it in Saudi Arabia in the context of the way real societies work, not the way we'd like them to work.

**David Chambers:** Thank you for that excellent perspective. Greg, I turn to you first and say what do you say to a Saudi Gorbachev? Needed? Do you have anybody picked out yourself since you're making the recommendations?

**Gregory Gause:** Look, succession is the most sensitive issue for the ruling family in Saudi

Arabia. It's the one in which they are least open to foreigners meddling, and there have been foreigners who have attempted to meddle in succession issues in the past. Most notably, when Gamal Abdul Nasser was president of Egypt during the last major succession fight in Saudi Arabia between then King Saud and then Crown Prince Faisal.

I don't have any recommendations about who. I think Tom is absolutely right that the primary task of a ruling family, if it's going to maintain itself, is to sustain an orderly succession that maintains the order in the country, the political order and the economic order. The Saudis have done that pretty well, but they face uncharted waters because since the founder of the modern Kingdom, King Abdul Aziz, died, succession has gone through his sons.

At some point, it is inevitable that there will be no more of the King's sons. There is no template or precedent for how succession goes to the third generation, to the generation of grandsons. Before the generation of the sons disappears, it's incumbent upon them to have a procedure in line so that that generational transition is smooth. This is a matter that they have to handle. I don't think outsiders can actually tell them what to do.
We don't know the inner workings of the family. The thing about the family is that those who talk about what's going on in the family doesn't know, and those who know about what's going on in the family don't talk. I think that's absolutely clear. But, the issue is there.

**David Chambers:** Usamah, Jim, do you have any comments on Thomas's recommendation?

**James Placke:** Nothing specific.

**Usamah Al-Kurdi:** Let me say that what Tom and Professor Gause just said discredits the fact that Saudi Arabia is a country that is run by institutions. The creation of the Consultative Council and the upcoming municipal elections -- I also anticipate in a year or two or maybe three, the elections of members of the regional councils, possibly in the future, members of the Shura Council, which means you probably won't see me here. [Laughter] This is a country of institutions. Let's think of it this way when we think about the issue of succession.

Now, if I may, this other issue that was raised earlier .. I mentioned the reform started in Saudi Arabia in 1993. The royal address to the Shura Council about two years ago was very clear in setting up reform as a policy of the government and addressing issues that are of interest to women and participation of the people in the policymaking process. It was very clear in the King's address to the Consultative Council at that time. So, we are not talking about individual or isolated steps that were taken left and right. The other point I would like bring up is that I would like to repeat the point about evolution. What is happening in Saudi Arabia in my opinion is a natural evolution of nations. Our country is 70 years old. The unification of Saudi Arabia actually started 100 years ago, but the name Saudi Arabia was only adopted 70 years ago. We have 100 years of experience behind us, and we know that this evolution is necessary, and this is why we are actually going through with it.

My last comment is on the issue of internal security. Rather than internal security and democracy, I think in this stage we are looking at internal security and reform. This is something that we need to pay a lot of attention to in my opinion. We may have reached the peak of

terrorist activities in Saudi Arabia, and I'm saying that because I am following all the events there because I'm comparing with other countries - Red Brigades, the Basque movement, the experience of Egypt and other countries. I think we may have reached a peak there.

At the end of the day, have we done everything that we want to do? I don't think so. We still have a lot of things to do. We anticipate to have to continue to reform many aspects of our country so that we follow again the natural evolution stages. Are we going as fast as we should be going? Let me be frank with you, I don't know. I would like to see things move faster, but at the same time, I see the experiences in other countries, who went faster than their people were able to accommodate, and they had problems. After thinking about this a little bit, I think maybe doing it one step at a time is the best way to go about it. Thank you.

**David Chambers:** Just to follow up on that, you're talking about speed, but how about the overall goal? We talk a lot here these days about a Greater Middle East Initiative or plan. I can't actually remember what phase of that that we are in or what the current name is. But, do Saudis have an American democracy model in mind? Or, do you see a native Saudi democracy evolving? Will it be recognizable to Americans if so?

**Usamah Al-Kurdi:** One of the most important things about reform, I'm sure you must have heard many many people say, is that it has to come from the people. I thought this was the essence of democracy is that people govern themselves the way they see fit.

Now, for somebody else to come in and decides to do mass reform for all of the Middle East, somehow, I don't think mass reform will work.

Discretion? Yes. The transfer of other people's experience? Yes.

So, let's do this at our own pace. Let's learn from the experience of others. Help us appreciate the fact that we are going through that change. For God's sake, the last thing we need now is skepticism.

When the word postponement was used in association with the elections, I thought, "What postponement is that?" I mean the decision was to go with municipal elections a year from the decision, which meant October or November. According to the schedule of the elections that I have with me, it actually starts the first phase -- the voter registration starts on the 23rd of November. So, I don't understand where the word "postponement" came from. The decision has been made. In my view, it is being executed at the right moment. Again, give us the opportunity to do this at our own pace; change whatever we think is necessary for us to change.

As for the model? It doesn't have to follow a certain model for it to be acceptable by others. Again, we have 100 years of experience behind us. Many of you probably know that this is the third Saudi state. We had two different Saudi states in the past. So, we have a long history to learn from. That alone is sufficient for us, not have to worry about a certain model to follow.

Thank you.

**David Chambers:** Jim, saved for last because we need a cold and hard look at reality. A lot of hopeful talk here. Tell us what you see in terms of these recommendations and these analyses if you would, please. How does this mesh with the realities of the oil market and other factors as you see them? How is the U.S. helping or hurting the Saudi reform efforts?

**James Placke:** Well, despite that open invitation to throw cold water over it, David, I don't think I will because I think the discussion among my colleagues has been very much to the point, and it underscores the fact that whether or not if the pace is sufficient, there's definitely a reform movement in Saudi Arabia. This conversation also reminded me of one of the great truths about Saudi Arabia, of which there are several. But, one of them is things move very slowly in Saudi Arabia. Everything has an antecedent, but often it's so remote that you can't identify it. This is true of reform as well.

Listening to my colleagues, I was reminded of a circumstance in the early 1980s when I was charge de affaires at the American embassy at that time. The late Senator Chaffee of Rhode Island scheduled a visit in July. In Saudi Arabia, anybody who can will be somewhere else in July, including much of the government. But, I did find a senior government official who was willing to meet with the Senator, that would be appropriate. He was also a prominent member of the royal family. The Senator and I came in and sat down, and the Saudi official took us from where we were that day in the early 1980s all the way to a constitutional monarchy. This was 20 years ago. This was a member of the family. So, these ideas are not brand new. They're not floating around among revolutionaries. They are widespread throughout the society.

Another indicator of that was after the first Gulf War, which ended in February 1991. There was the term the "Riyadh Spring," after the Prague Spring about a decade earlier. There was a moment. Women were driving as a demonstration of women's rights. There were various petitions submitted to the government -- one from the right, one from the left, if you will. But, what struck me about them was that they were virtually identical in what they were seeking -- transparency and accountability in government, equality before the law and greater political participation. Now, what these wings of the political spectrum would have done with these reforms, had they come about at that point, would have been vastly different. But, the agenda was pretty well determined and quite uniform, surprisingly so.

Usamah has mentioned that one of the early reforms, one of the most important ones, was the establishment of the Majlis Al-Shura in 1993. Well, that was three years later. The "Riyadh Spring" only lasted a couple of months, but the antecedent of the Majlis was this movement that really took on momentum and a life of its own that I think has continued to this day.

Clearly, reform has accelerated, especially under Crown Prince Abdullah, whose done I think an amazing job given his age and given the difficulties of unifying the family around reform. There were two things in Greg's article that struck me as evidence of this difficulty. One was, and it was almost a parenthetical issue that Greg raised but I think quite an important one, to what extent are the Saudi security forces -- who have not distinguished themselves lately -- penetrated and subverted by Islamist elements. I think that is an important issue, and one that is going to be

part of what will control the pace of reform.

The other was his reference to the well-publicized arrest some months ago of three prominent and very moderate reformers. This is evidence that the Saudi government is not all on the same page. It generally goes back to the Ministry of Interior, which is probably the most conservative element in the Saudi establishment. Where does this leave us? Well, in my mind, there isn't a question of whether or not Saudi Arabia is in a reform mode. It is. Usamah has given a very compact and also very complete summary of the major elements of the reform movement program.

The questions in my mind are will it be fast enough and, secondly, how will we know?

Well, I guess I would suggest two benchmarks: the level of activity to identify and constrain the Islamist movement that is anti-Saudi government and anti-Saud family and the unity within the family with which this is pursued. As I said I think there are some questions at this point. We'll see how this proceeds.

Secondly, and Usamah touched on this well, the question of economic opportunity for a still rapidly growing population. More than half of the Saudi population is below the age of 18. There are no statistics on this but there are various ways that you can derive at least an estimate. Some of the better economists in the Kingdom puts current Saudi unemployment of working age, male adults somewhere between 20-25 percent. That's very high and it's getting higher every year. That's a pressing problem and the element of reform on the economic side is, in my view, as important as it is on the political side.

Finally a word on oil, which I can't of course refrain from getting into having spent the last fifteen years or so as an oil analyst. In preparing for today's discussion I thought I should go back and take a look at what's happening with Saudi oil lately. Well, Saudi oil production of course is way up. It's gone up by over a million and a half barrels a day in the course of this year -- from last Spring to the current time.

But where is the oil going? Well, to my great surprise, because I kept a chart for a decade or more, about the top five oil suppliers to the United States - the countries from which the US imports most of its oil - Saudi Arabia has been at the top for several decades and that's by design. To the Saudi establishment maintaining that position was an important element in sustaining, what was often referred to as the "strategic relationship."
Something has changed because Saudi sales to the US have fallen off the table. And that began at the end of 2002. What was happening at the end of 2002?

Well, we were getting ready to invade Iraq. And I think while there was what has been generally described as sufficient degree of cooperation with Saudi Arabia in enabling the United States to undertake that adventure, it clearly was not in tune with Saudi thinking, or really anyone else in the Arab world for that matter. I think what we are seeing is not punishment or retribution. I think it is, again, a slow recognition on the Saudi side that the "special relationship" is not so

"special" anymore. If the Saudis, and they do, read editorials in American newspapers or read the comments of commentators and occasional remarks by senior government officials, I think they pretty much have to come to that conclusion. Well, what has happened? Oil is still coming into the US. More is coming in from Canada and Mexico where virtually it's in a dead heat for number one supplier. More is coming in from Nigeria, which by the end of the year I would say that Saudi Arabia would have fallen out of the top five and Nigeria will be very much in fourth place. The only consequence of this is, I think, the political consequence. Oil supply is not disrupted in any way at all. Saudi Arabia acknowledges repeatedly that its interest in long term oil market stability is paramount and it behaves accordingly. When it comes to oil policy I would listen to what Saudis say, but more importantly I would watch what they do. They often talk about quota adjustments but look at what their production is - sometimes it's going in the opposite direction.

The oil market is well supplied. Saudi oil supplies are now going into China. China has increased its imports to by 40%, or will in the course of this year. And China has become the world's second largest importer, superceding Japan and now just behind the United States. The reason it's going there and not going to the US is pure economics. In order to maintain that number one rank, as the premier supplier to the American market, for many years the Saudis did that simply by the way they priced their oil. That's the way you sell any commodity. If you price it attractively enough you will be the number one supplier.

In a general way, it would be difficult to document, but they were foregoing a larger net-back that they could have gotten on those crude oil barrels in East Asia of somewhere between 20 and 30 cents a barrel. In effect that was a subsidy to the American consumer. Well, that's disappeared and the market is reacting accordingly. Saudi oil is going to China. Its still coming here and will still continue to come here because it's such an enormous factor in the market. But I would draw the inference, that Saudi Arabia has drawn the inference, as I said, that the "special relationship" perhaps is no longer so "special." That may color how the two parties look at each other as we move down the road. I think in the end it's the internal questions of Saudi reform that are the paramount questions.

**David Chambers:** Jim, this is big news, certainly to me. If I can ask, do you have some numbers to go with that -- what were Saudi levels over the past five years and how far they've dropped.

**James Placke:** Well, Saudi exports to the US in, say, the last 20 years reached their peak in late 2002 at 1.7 million barrels a day. Statistics through the Department of Energy on imports into the US which are, by far, are only available through May. Up through May it had dropped from that level, 1.7, to just over 1.1 - that's 600 thousand barrels a day. That's a big chance. And it's sufficient as I said to probably take them out of the top five suppliers altogether by the end of this year.

**David Chambers:** Does that mean that Saudi Arabia, in a sense then, is no longer our foreign "ace in the hole" in terms of being a supplier. I mean, isn't the market currently in a situation where there are very low oil reserves world-wide and therefore, is there real significance for the shift.

**James Placke:** Well, what's significant is not where a given barrel of oil comes from, whether it comes from Venezuela, Nigeria, Canada or Saudi Arabia is really immaterial - setting aside questions of crude quality and suitability to certain refiners and so on, technical issues. What's important is that those barrels be available. On that side, Saudi performance I think has been exemplary. They've raised their production by as I said about a million and a half barrels a day in the course of this year. It's just that those barrels aren't coming here. Does that make the US any more vulnerable?

No. In fact, maybe less so. Because now a greater proportion of our imports are coming from our two neighbors to the north and south, and from Atlantic basin countries including, interestingly enough, the United Kingdom - which is now I think about the number seven supplier to the US market - but also Nigeria, Angola, Venezuela and Columbia.

**David Chambers:** Greg, your article specifically mentions "pump up the volume." I took that to mean increasing oil production and so forth. Jim has just finished saying that Saudi oil is going elsewhere these days. Does this information change your thoughts or recommendations.

**Greg Gause:** No, actually what I thought in my memo - the memo format is kind of fun. Tom Friedman doesn't have a monopoly on it. You can kind of "be out there" a little bit more than you might be otherwise. The recommendation, was actually not on production, which they've taken up almost as high as they can go. One can talk about, what I would say was the miscalculation of the Saudi oil decisionmakers at the beginning of 2004 when they misread the market and thought the prices would go down after the winter heating season and thus cut production, helping to spark the price increases. Once they realized they miscalculated I though that they behaved in a way that Jim says they normally behave to try to maintain some sort of market stability. To me it's the question of surplus capacity. The Saudis have, at costs to themselves - it costs money to sustain surplus capacity that you're not pumping from, the Saudis had basically played the role of the central bank in the world oil market. If there were problems they would increase production. They did after 9/11. They did in the ramp up to the Iraq war. They did when Venezuela was on strike. And so, they have solidified their role in the world economy by playing that central banker role. But now because of changes on the demand side - Jim mentioned in China and other places - we're at a point where there's precious little surplus capacity in the world. And if Saudi Arabia wants to continue to enjoy that kind of role and respect that its had in the world, in the diplomatic scene, I think it might have to invest some more in maybe ramping up its productive capacity - not so much its immediate production - but its capacity so it can continue to say that we have that million and a half, two million barrels of surplus capacity. So that if there is a serious short term disruption somewhere else because of natural disaster or political events "we" can fill the gap. That's been a role the Saudis have played for some time and it's central to their standing in the world economy.

**David Chambers:** Tom, I going to ask you and then Usamah, if I can, your reactions as well to this information from Jim.

**Thomas Lippman:** I don't believe that information was particularly surprising. Remember that, some years ago when I held the "oil portfolio" so to speak, as a journalist, Jim was one of my

tutors on this subject. It is absolutely true that oil has no nationality. It is also true that the record shows that even state producers in countries with which we have terrible relations will continue to sell oil because they need the money. It was true in Libya and it was true in Iran. So the provenance of a particular barrel of oil, is, as Jim said, I agree, irrelevant.

There's a certain logic to the growing economic and even political relationship between Saudi Arabia and China. Just last week I believe it was the Saudis announced the creation of a sort of permanent diplomatic liaison staff for regular consultations on political issues with the Chinese. And if you go all the way back to 1988 and the infamous SS-20 missile sale from China to Saudi Arabia, it seems to me that there's a certain logic for the Saudis looking around and saying, "wait a minute - we need a good relationship with a country that's a permanent member of the Security Council, is a strong and growing market for our oil, is a nuclear power, and, by the way, is untainted by having invaded any Arab countries. That may well be why, and I'd like to hear from Jim on this, after all the talk about which foreign oil companies were going to be brought in to develop the natural gas industry, the United States was not included but China was.

James Placke: On think on the latter point the answer is pretty simple. In fact, the contracting process that let contracts for four projects in the gas development area that were announced last March was extremely open and transparent. Even the American competitors readily acknowledge that. Chevron came in second in two of the four projects - two on which they bid. And Chevron was the original concessionaire in Saudi Arabia that actually discovered oil. Saudis would have been happy to have Chevron there but it's a strictly commercial consideration.

**Thomas Lippman:** I'd like to believe that.

**James Placke:** I can't find anything else in it, Tom, I really can't. I've looked.

**Greg Gause:** It probably does have political implications down the road. Because, for decades the only real, if you will, societal base of support for US-Saudi relations - not at the elite level - but in society, were American businesses, particularly oil companies, that did business in Saudi Arabia. And after Saudi Aramco completed the participation transfer and it became a completely Saudi owned company you found that Mobil just wasn't as interested in carrying the domestic political water for Saudi Arabia in the US. And I thought that the gas deals would be a way to reengage big American industry back in the energy sector in Saudi Arabia in a direct way.

I don't doubt at all that these were financial decisions. The rate of return, from everything I heard, was just not what American companies demand these days. Some of these national companies, like in China were willing to take a lower rate of return because they saw, perhaps, a political take on this. But I do think this is yet another reflection that the relationship isn't as "special" as it used to be.

**James Placke:** There is another tradeoff in this oil transaction, or set of transactions, there's a general expectation that Saudi Arabia, after having knocked on the door in China for 20 years will finally be allowed to come in and invest in a Chinese refinery - probably taking roughly a half interest. Something they've wanted to do to expand their market reach in that area. It is the

fastest growing economy in the world - it has been for several years. A lot of it is market driven.

Your description of the attributes that a significant partner for Saudi Arabia ought to have - permanent member in the Security Council, nuclear power, and so on - does obviously fit China very nicely. Somehow I can't quite bring myself - I may be yet to be educated on this - can't quite stretch my imagination far enough to see Saudi Arabia and the Chinese having the kind of relationship that the United States and Saudi Arabia once had and no longer have. I think it's just a readjustment - part of the rebalancing around the world, post Cold-war. That's really when the relationship began to go downhill -- when we lost that unifying element of having a common enemy: God-less Communism in the case of Saudi Arabia and the Soviet menace in the case of the United States.

**Thomas Lippman:** But it also reflects the maturing of Saudi Arabia as a society. Saudis no longer need TWA to teach them how to run their airline.


**James Placke:** Absolutely, and they don't need the four Aramco partners to teach them how to run their oil industry. They learned those lessons and they learned them very well.

**Usamah Al-Kurdi:** I was worried about me talking about oil. Because I can spend three or four hours talking about it. Gentlemen, thank you very much. I don't need to make any comment here, [laughter] except just to confirm that in additions to all the occasions that were mentioned before when Saudi Arabia pumped up the oil to keep it at reasonable prices and quantities was the 80s when Saudi Arabia decided to play the "swing producer" role.

The idea was there was too much speculation and somebody needed - at great expense to Saudi Arabia's economy in those days - but it has been important for us to make sure that the oil is available in prices and quantities that will support economic growth in countries that import oil. Two comments here, one on the unemployment. When a university professor announced his calculations for unemployment in Saudi Arabia was 24 percent. I had to call him three or four times, sent him three or four written notes to say "please give me a copy of your study." Nothing came through. When the Saudi American Bank report said unemployment - I'm talking about a few years back - it said unemployment in Saudi Arabia is at 14 percent. I called a guy I know there and said, "Where did you come up with this number. Can I see your calculations?" He said, "No, but I got them from a report by the American Embassy in Riyadh." So I called the American Embassy in Riyadh and I said, "Can somebody give me the numbers you used to come up with 14 percent?" He said, "No, we can't because we took it from Saudi-American Bank." My calculation is five and a half percent. Finally the government realized that they actually have to calculate and announce the unemployment rate and their number is nine and a half percent. But it's a number that I think is not based on statistics, but conclusions driven from other indicators. So I think it may be less than the nine and a half percent that the government announced.

The issue of moderate reformers that were arrested. To really understand what happened there

let's look at the complete picture, not part of it. There were ten people arrested. Two or three days later seven of them were released and about a week later the three were taken to court where they are receiving a public hearing. Media is present. The trial is being made public. I think this is an important part of the reform that has happened in Saudi Arabia -- is the way the government is dealing with these people.

**Thomas Lippman:** David can I ask a question?

**David Chambers:** Absolutely.

**Thomas Lippman:** If you permit me I'd like to go back to the topic of Greg's article. As I understand the gist of your argument, it's that because of the primacy of the security issue, Abdullah would do well to proceed cautiously on certain reforms, because the kind of reforms that we might approve of, only stir up opponents of the regime and cause trouble. One of the things you say is "You, Abdullah, need to be particularly cautious about women's issues in the short term because nothing else could as quickly alienate the religious leaders whose support you need for the security fight." Should women be allowed to vote in the elections?

**Greg Gause:** No.

I think the women's issue is the third rail of Saudi politics. I think it's the one thing, one of the most important things, that would unite - let's call them from the Islamists wing, or movement, from the Mufti of Saudi Arabia over to the most radical, violent Al Qaeda type. If you want to take one issue that would unite them, I think it would be on women's issues.

Should women vote? Of course they should. And eventually the Saudis - and this has to be a top down thing. Because it's not going to come from the bottom. I don't think it's going to come from society. There are too many obstacles. There's too many entrenched interests and it's too sensitive an issue.

I think that the issue immediately of women voting in the municipal elections would cause more problems for the reform agenda in Saudi Arabia than it would help. If there's one issue I think that would mobilize guys with long beards and short thobes to come out and vote for people who would stand against a general reform agenda in Saudi Arabia it would be women's issues.

I think that there are other things that can be done. I think the women's driving issue is - society is ripe for this. Look, women drive in Saudi Arabia - out in the countryside, they do. So phase it in.. only women who have jobs - that's one way to start; only during daylight hours. There are ways that it can be phased in and it can be done not as a social change but as an economic reform. And I think that as economic reform it is much more saleable. Look, how many billions of dollars leave Saudi Arabia every year because the foreign drivers that are hired to drive women are sending money back to their families in Pakistan, the Philippines and wherever they're from.

If you sell this as an economic issue I think you can actually make some changes on the women's rights front that would not engender a big backlash, that, at least in my judgment, a declaration of giving a right to vote right now would.

**David Chambers:** Jim..

**James Placke:** To try to lend a little perspective to this particular issue of the status of women in Saudi Arabia. On one of my visits to the Kingdom in the late 1990s happened to coincide with a speech that Crown Prince Abdullah made at Yanbu in Western Saudi Arabia on the Red Sea. It was widely covered in the local media and the entire speech was about the role of women in Saudi society. This was a nettle he seized voluntarily, no one was pushing him, nobody could push him into doing this. It was really very forward looking and I thought very well grounded, and very much welcomed speech. But nothing happened. And about three weeks later Prince Nayef, the Minister of Interior, made a kind of a counter speech. It was pretty clear who was on which side and it was an issue that did not reemerge for quite a long time.

I think the Crown Prince has a sense of these things and has a sense of where he would like to see things go - I have no question. But getting to push them there is difficult.

Going back to where you started, Tom, on Greg's article, there are things that need emphasis on this question on how you manage then the expanding role of women in Saudi society. The other side of the coin that I thought Greg reflected very well in his article was that the last thing you would want to do is have, let's say, an American style election today, because what you would get would be an extreme Islamist government. And that would not be in anyone's interest. So it's a very difficult path to walk. You can go too slow or you can go too fast.

**David Chambers:** Doctor Usamah, you're our guest here. Do you have any comments for us?

**Usamah Al-Kurdi:** When French television asked my wife if she wanted to drive, her answer was, "Why do people from other countries keep pushing things on my agenda?"

Women in Saudi Arabia are a lot more interested in jobs and education than driving or anything else. I was reading a very interesting few page debate among women on whether or not they wanted to participate in the upcoming elections. I think they were divided 50/50. But sometimes I think maybe we should allow the women in Saudi Arabia to decide what is on their agenda. And I'm sure they can make their own decision.

Are women going to vote this time? I don't think so. Are they going to vote in the future? I think they will. When? I don't know.

**David Chambers:** It is amazing that many Americans spend a lot of their lives pursuing enough money so they can be driven. I guess the grass is always greener.

We are going to have to wrap up today. This discussion could definitely go on all day, and probably should given the caliber of our experts. But we do have to wrap up.

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