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FOR SECRETARY CLINTON FROM AMBASSADOR SMITH

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TAGS: OVIP PREL PGOV PTER SA YM IR ECON
SUBJECT: SCENESETTER FOR SECRETARY CLINTON'S FEB 15-16
VISIT TO SAUDI ARABIA

Classified By: AMBASSADOR JAMES SMITH
REASONS 1.4 (B) & (D)

INTRODUCTION

1. (C) Madam Secretary, Mission Saudi Arabia warmly welcomes your visit to the Kingdom, a country which, by virtue of its energy resources, financial power, counterterrorism efforts, and leadership of the Muslim world, plays a critical role in many global and regional issues of importance to us. Your visit comes at a time of emerging opportunities for engagement to advance the goals that you and the President have laid out in your speeches in the region.

2. (C) Our alliance with Saudi Arabia, while complicated and subject to occasional disjunctions, has proven durable. Taking stock of where we stand, we see a mixed picture. The good news is that the Saudi leadership still sees the United States as its most important strategic partner and guarantor of its stability. We also share many global and regional objectives, including the need for global financial and energy stability, a common view of threats posed by terrorism and extremism, the dangers posed by Iran and destabilization in Pakistan, and the linkage that progress toward Middle East peace has to virtually all other regional issues. Finally, Saudi Arabia has become one of our most important allies in the fight against Al-Qaida and terror financing.

3. (C) The bad news is that we differ on tactics in some key objectives, and we are often frustrated by Saudi unresponsiveness and a dearth of interlocutors among an aging collective leadership. The status of women, religious freedom, and human rights are ongoing concerns. On the Saudi side, King Abdullah believes we are not always reliable, consistent, or willing to heed his advice on important issues such as Iraq. Saud Al-Faisal and others have openly been critical of U.S. policies they describe as having shifted the regional balance of power in favor of arch-rival Iran. Differences of opinion on some of these issues can be exacerbated by our differing cultures and value systems, which can introduce a degree of skepticism and hesitancy in the relationship.

4. (C) Despite the problems, a negative assessment of the bilateral relationship would miss a critical point relevant to U.S. goals in the region: Saudi Arabia is a country in transition, and the changes underway present opportunities for engagement that can advance U.S. interests and national security. Saudi Arabia faces transitions on multiple levels, from the geopolitical, where its trade and energy relations are shifting from west to east, to economic, where greater integration in the world economy is steadily exposing Saudis to international best practices. Domestically, greater access to internet and cell phones is unleashing new forms of social activism, something demonstrated by an outpouring of Saudi spontaneous voluntary assistance in the aftermath of the Jeddah floods.

EDUCATION & DIVERSIFICATION TO COMBAT EXTREMISM

5. (C) Having faced down what amounted to an insurgency by Al-Qaida from 2003 to 2006, Saudi Arabia's leadership acknowledged the pressing need for systemic reforms to combat extremist ideology and provide for a rapidly expanding population (the annual growth rate is about 2 percent). King Abdullah's strategy is two-pronged: he has attacked the roots of the extremism that fed Al-Qaida through education and judicial reforms to weaken the influence of the most reactionary elements of Saudi Arabia's religious establishment. He is also promoting economic diversification. The King is keenly aware of the urgent need to make Saudi education more relevant to today's workplace and increase the role of women in the economy, goals which remain controversial in this deeply conservative, inward-looking desert Kingdom. Guided by a vision that dovetails with some key elements of the President's Cairo speech, King Abdullah has begun to implement an ambitious plan to transform Saudi Arabia's economy away from excessive reliance on hydrocarbons and towards a knowledge-based economy that can provide sustainable development for the long-term. Achieving these goals will require nothing short of a revolution in the education system and significant changes in most aspects of Saudi society, especially the status of women.

6. (U) Seen from the outside, the pace of political reform seems glacial (a notable exception is that changes introduced after the WTO negotiations have been very fast for any country; regulatory agencies are also standing up quickly). Yet for certain elements of Saudi society, the changes are coming too fast. Whatever the pace, however, the reality is that serious reforms are gradually but irrevocably changing Saudi society. Recently implemented reform measures include re-shuffling the Ministry of Education's leadership last February (bringing in the King's pro-reform son-in-law as the new minister); a top-to-bottom restructuring of the country's courts to introduce, among other things, review of judicial decisions and more professional training for Shari'a judges; the creation of a new investment promotion agency to overhaul the once-convoluted process of starting a business here; the creation of a regulatory body for capital markets; the construction of the King Abdullah University for Science and Technology (the country's new flagship and controversially-coed institution for advanced scientific research);

and a substantial budgetary investment in educating the workforce for future jobs. The Saudi government is also encouraging the development of non-hydrocarbon sectors in which the Kingdom has a comparative advantage, including mining, solar energy, and religious tourism. The Kingdom's 2010 budget reflects these priorities -- about 25 percent is devoted to education alone -- and amounts to a significant economic stimulus package.

U.S. PARTNERSHIPS TO SUPPORT REFORM & ECONOMIC DEVELOPMENT

7. (SBU) Saudi officials have been candid in stressing the importance they place on strong ties with the United States to help them meet reform challenges, both through increased engagement at the government level, including educational exchanges and more FDI, particularly in energy, high tech, and manufacturing. The past year has seen several large investments by prominent U.S. firms in advanced technology areas, and we are working to raise the profile of our trade and investment relations, including through a major Saudi exposition in Chicago at the end of April. The Mission has also steadily expanded USG engagement in education, public health, science & technology, entrepreneurship, and civil society. There are now more than 22,000 Saudi students studying in the US, exceeding pre-9/11 levels. Public health engagement has included breast cancer awareness and CDC cooperation to set up an advanced epidemic screening network that protected this year's 3 million Hajj pilgrims. Our Science & Technology umbrella agreement is already expanding cooperation, including new projects with NASA. Our MEPI programs include a first-time ever exchange visit by a group of Saudi judges, leadership development for women, prevention of violence against women and children, and youth exchange and study. One female participant in our Social Entrepreneurship Forum was a finalist in the 2009 Global Student Entrepreneur Awards. She and seven other Saudi entrepreneurs will attend the President's April summit. Mission elements have also provided training to help the SAG implement a new law to combat trafficking in persons. Intensive engagement with the SAG on IPR is another success story. You will want to congratulate Saudi officials for the significant progress Saudi Arabia has made over the last several years in improving IPR protection, which resulted in the Special 301 Committee deciding to remove Saudi Arabia from the Watch List.

SAUDI STRATEGIC CALCULATIONS

8. (C) TURNING EAST: Saudi Arabia is trying to come to terms with the shift in global energy and trade ties towards Asia, which has both political and economic consequences. Bilateral trade with China has more than tripled, and China will soon be Saudi Arabia's largest importer. Saudi Arabia has also committed significant investments in China, including the \$8 billion Fujian refinery. Increased trade has also brought increased friction, including anti-dumping complaints from both sides. Saudi Arabia is thinking through how best to take a leaf from the Chinese playbook and use these expanded trade ties to achieve important political goals. In this regard, Saudi Arabia has told the Chinese that it is willing to effectively trade a guaranteed oil supply in return for Chinese pressure on Iran not to develop nuclear weapons.

9. (S/NF) COUNTERING IRAN: We expect that Saudi Arabia will continue to develop its ties with China, in part to counterbalance relations with the West. While the King's preference is to cooperate with the U.S., he has concluded that he needs to proceed with his own strategy to counter Iranian influence in the region, which includes rebuilding Riyadh-Cairo-Damascus

coordination, supporting Palestinian reconciliation, supporting the Yemeni government, and expanding relations with non-traditional partners such as Russia, China, and India to create diplomatic and economic pressure on Iran that do not directly depend on U.S. help. The King told General Jones that if Iran succeeded in developing nuclear weapons, everyone in the region would do the same, including Saudi Arabia.

10. (S/NF) The King is convinced that current U.S. engagement efforts with Tehran will not succeed; he is likely to feel grimly vindicated in his view by Ahmadinejad's February 11 boast that having successfully enriched uranium to a level of 20 percent, Iran "is now a nuclear nation." The King told General Jones that Iranian internal turmoil presented an opportunity to weaken the regime -- which he encouraged -- but he also urged that this be done covertly and stressed that public statements in support of the reformers were counterproductive. The King assesses that sanctions could help weaken the government, but only if they are strong and sustained. The King will want you to elaborate on the President's statement that the time for sanctions has come. He will also want to hear our plans for bolstering Gulf defenses vis a vis Iran. (The King has invited General Petraeus to his desert camp for discussion on this topic on Tuesday.)

11. (C) CLIMATE CHANGE: Your visit offers an important opportunity to head off a serious clash over climate change. Saudi officials are very concerned that a climate change treaty would significantly reduce their income just as they face significant costs to diversify their economy. We want to get beyond the obstructionism that Saudi negotiators have often shown during the negotiations and persuade senior leaders to work with us in a partnership to meet their strategic concerns, including by cooperating on developing solar and biomass energy. The King is particularly sensitive to avoid Saudi Arabia being singled out as the bad actor, particularly on environmental issues. Your conveying the importance the President places on working as partners with Saudi Arabia on the Copenhagen process will be very important in making this dialogue more constructive. Secretary Chu intends to explore specific areas of collaboration during his February 21-23 visit.

SAUDI REGIONAL SECURITY CONCERNS

12. (S) PREVENTING A COLLAPSE OF YEMEN: Saudi participation in international diplomatic efforts to stabilize Yemen reflect Saudi fears that instability on its southern border is a clear and present danger. The King will tell you that Yemen's strategic location makes an Al-Qaida presence there more threatening than in Afghanistan; he will stress the need to support Yemeni unity, despite his mistrust of Ali Abdullah Saleh. With respect to Saudi involvement in the war against the Houthis, the King will stress that the SAG's motivation was self-defense. As Al-Qaida infiltrators from Yemen multiplied, the SAG concluded that the Houthi rebellion had distracted Saleh's government to the detriment of Saudi security. The military intervention was triggered by a Houthi incursion into Saudi territory, but it presented a long-sought excuse to fortify the porous Saudi-Yemeni border. On February 7, Prince Khalid also informed Ambassador Smith the fighting is wrapping up, and that a ceasefire arrangement could be in place by mid-February.

13. (C) GESTURES AFTER ALL?: The King appreciates the President's commitment to Middle East peace but is skeptical the U.S. can bring sufficient and sustained pressure to bear on Israel, especially regarding settlements. The King told General Jones that progress on Middle East peace was only possible if President Obama was willing to pressure Israel, and Saudi officials have rebuffed U.S. requests for confidence-building gestures to help restart negotiations. Despite their adamant rhetoric, however, several members of a private Jeddah-based think tank

run by a retired Saudi general have very quietly been participating in Track Two discussions, apparently with SAG knowledge, and even put forward a proposal on Gaza. In a more dramatic public encounter that has provoked commotion in the region, former Saudi Ambassador to the U.S. Prince Turki Al-Faisal shook hands with Israeli Deputy FM Ayalon to settle a dispute over joint seating at a Munich conference. Both sides have since insisted the gesture did not signal changes in policy, with a "senior Saudi diplomat" issuing a statement emphatically denying that the incident constituted any form of recognition for Israel.

14. (S/NF) AFGHANISTAN/PAKISTAN: King Abdullah firmly believes that Asif Zardari is the primary obstacle to the government's ability to move unequivocally to end terrorist safe havens there ("when the head is rotten, it affects the whole body"). The King told General Jones that U.S. development assistance would rebuild trust with the Army, which he asserted was staying out of politics in deference to U.S. wishes, rather than doing what it "should." On Afghanistan, the King has expressed support for the new U.S. strategy, saying that spending on roads, schools, hospitals and mosques would dissipate popular mistrust and help rebuild the country. The King has not yet acknowledged the Saudi role in Taliban mediation in conversations with USG officials; GIP Director Prince Muqrin has explained to several recent USG visitors that the SAG prefers to keep such discussions in intelligence channels until any agreement is reached. Perhaps reflecting this, the Saudi media downplayed President Karzai's recent visit and the Afghan Ambassador reported that the meeting with the King lasted only ten minutes.

A NOTE ABOUT THE KING

15. (C) The Custodian of the Two Holy Mosques will offer you a traditional Saudi welcome at the desert "encampment" outside Riyadh, where he likes to spend his winter vacations. You will find in 86-year old King Abdullah a wry and forthright interlocutor. Having struggled with a speech impediment throughout his life, he tends to express himself tersely. Reflecting his Bedouin roots, he judges his counterparts on the basis of character, honesty, and trust. He expects commitments to be respected and sees actions, not words, as the true test of commitment; and he expects good-faith consultations, not surprises. Once the King has lost trust in a counterpart, as has been the case with Nouri Al-Maliki or Asif Zardari, his personal antipathy can become a serious obstacle to bilateral relations. On the other hand, as with President Obama, the King's esteem will help navigate differences and at times change policies. The King is undoubtedly looking forward to his discussions with you, and Mission Saudi Arabia enthusiastically looks forward to supporting your visit.

MISSION STAFFING

16. (U) The U.S. Mission in Saudi Arabia includes Embassy Riyadh, and Consulate Generals Dhahran and Jeddah. The entire Mission, representing ten agencies, consists of 605 staff (212 U.S. Direct Hire (USDH) and 393 Locally Engaged

(LE) staff).
SMITH