

Saudi Arabia Threatens To Liquidate Its Treasury Holdings If Congress Probes Its Role In Sept 11 Attacks

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King Salman of Saudi Arabia

Back in January, when the market was watching in shocked silence as oil prices were crashing to decade lows and as concerns emerged that Saudi Arabia may need to commence selling its vast, if unquantified, USD reserves, we wrote a post titled

[“Attention Finally Turns To Saudi Arabia’s “Secret” US Treasury Holdings”](#) where we noted something very surprising: whereas we do know that Saudi Arabia is the owner of the world’s third largest USD reserves... their actual composition remains as a secret, because while the US discloses the explicit Treasury holdings of all other nations, ***Saudi Arabia’s holdings, for some unknown reason, are not officially disclosed.***



“It’s a secret of the vast U.S. Treasury market, a holdover from an age of oil shortages and mighty petrodollars,” [Bloomberg wrote](#) of Saudi Arabia’s US Treasury holdings.

“As a matter of policy, the Treasury has never disclosed the holdings of Saudi Arabia, long a key ally in the volatile Middle East, and instead groups it with 14 other mostly OPEC nations including Kuwait, the United Arab Emirates and Nigeria,”

Bloomberg goes on to note, adding that the rules are different for almost everyone else. Although Saudi Arabia’s “secret” is protected by **“an unusual blackout by the U.S. Treasury Department,”** for more than a hundred other countries, from China to the Vatican, the Treasury provides a detailed breakdown of how much U.S. debt each holds.”

So who does know how much US paper the Saudis are sitting on? Well, the Saudis of course, **“a handful of Treasury officials,”** and **some bureaucrats at the Fed,** **Bloomberg says, noting that “for everyone else, it’s a guessing game.”**

Yes, a “guessing game,” but one that will very soon have profound consequences for markets and for geopolitics.

We closed with a simple, if suddenly very prophetic question:

“who would be the new patron saint of the US Treasury Department in the event the Saudis drawdown all of their reserves and decide to diversify away from USD assets... **Put differently, who will monetize the US deficit if relations between Washington and Riyadh hit the skids over Iran?**”

It is this question that has suddenly reemerged with a bang, and could rock the US administration to its core as what until recently was a “fringe conspiracy theory” is suddenly exposed as an all too unpleasant fact, and becomes the biggest political scandal to rock the U.S. in years, in the process maybe even crushing the friendly diplomatic relations the U.S. has held for years with its biggest Mid-East ally, Saudi Arabia.

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First, a quick tangent: we have been greatly surprised by the reemergence of the topic of September 11 in recent weeks, and specifically the taboo - in official circles - issue whether there was a “Saudi connection” in the biggest terrorist attack on US soil. Just last weekend, out of the blue, [60 Minutes held segment on the “28 pages”](#) that were classified in the Congressional investigative report into 9/11 - pages that allegedly confirm the Saudi connection.

To be sure, Saudi officials have long denied that the kingdom had any role in the Sept. 11 plot, and the 9/11 Commission found “no evidence that the Saudi government as an institution or senior Saudi officials individually funded the organization.” But critics have noted that the commission’s narrow wording left open the possibility that less senior officials or parts of the Saudi government could have played a role. Suspicions have lingered, partly because of the conclusions of a 2002 congressional inquiry into the attacks that cited some evidence that Saudi officials living in the United States at the time had a hand in the plot.

Those conclusions, contained in 28 pages of the report, still have not been released publicly. It was the surprising rekindled focus on these 28 pages in recent days that suggested that something may have been afoot.

Something was.

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In a stunning [report by the NYT](#), Saudi Arabia has told the Obama administration and members of Congress **that it will sell off hundreds of billions of dollars’ worth of American assets held by the kingdom if Congress passes a bill that would allow the Saudi government to be held responsible in American courts for any role in the Sept. 11, 2001, attacks.**

Or mostly Congress, because Obama has remained steadfast in his support of his Wahhabi petrodollar overlords, and has been busy lobbying Congress to block the bill’s passage, according to administration officials and congressional aides from both parties, and the Saudi threats have been the subject of intense discussions in recent weeks between lawmakers and officials from the State Department and the Pentagon. The officials have warned senators of diplomatic and economic fallout from the legislation.



Deceased Saudi King Abdullah bin Abdul Aziz al-Saud presents Barack Obama with the King Abdul Aziz Order of Merit

By way of background, the Senate bill is intended to make clear that **the immunity given to foreign nations under the law should not apply in cases where nations are found culpable for terrorist attacks that kill Americans on United States soil.** If the bill were to pass both houses of Congress and be signed by the president, it could clear a path for the role of the Saudi government to be examined in the Sept. 11 lawsuits.

Suddenly Saudi Arabia is panicking: its response - if the US does pass this bill it would liquidate hundreds of billion in U.S. denominated assets, and perhaps as much as \$750 billion in US Treasuries (the NYT's estimate of Saudi Treasury holdings).

The NYT reports that none other than Adel al-Jubeir, the Saudi foreign minister, delivered the kingdom's message personally last month during a trip to Washington, **"telling lawmakers that Saudi Arabia would be forced to sell up to \$750 billion in treasury securities and other assets in the United States before they could be in danger of being frozen by American courts."**

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This stunning threat has caught America off guard, because until now it had largely been speculated that not the Saudis but China would use the "liquidation of Treasuries" as a bargaining chip. As it turns out, Saudi Arabia was the first.

To be sure, the Saudis whose budget deficit has soared in the past year as a result of collapsing oil prices, would stand to benefit from monetizing their US reserves. According to many, it is only a matter of time anyway. However, a dramatic, immediate liquidation would likely spark a market panic. Outside economists are skeptical that the Saudis will follow through, saying that such a sell-off would be difficult to execute and would end up crippling the kingdom's economy. **But the threat is another sign of the escalating tensions between Saudi Arabia and the United States.**

The Obama administration, meanwhile, is far less concerned about the market impact of a Saudi liquidation, and far more worried what a real inquiry into the Saudi role of Sept.11 would reveal (and who it would implicate) and as a result is building strawman arguments that the legislation would put Americans at legal risk overseas. In fact, as the NYT reports, **"Obama has been lobbying so intently against the bill that some lawmakers and families of Sept. 11 victims are infuriated. In their view, the Obama administration has consistently sided with the kingdom and has thwarted their efforts to learn what they believe to be the truth about the role some Saudi officials played in the terrorist plot."**

"It's stunning to think that our government would back the Saudis over its own citizens," said Mindy Kleinberg, whose husband died in the World Trade Center on Sept. 11 and who is part of a group of victims' family members pushing for the legislation.

Stunning indeed, and yet that's precisely who the "U.S." president sides with when attempting to get to the bottom of the 2001 terrorist attacks.

Incidentally, Obama will arrive in Riyadh on Wednesday for meetings with King Salman and other Saudi officials. It is unclear whether the dispute over the Sept. 11 legislation will be on the agenda for the talks.



President Obama at a Sept. 11 ceremony in 2015. The Obama administration argues that the bill would put Americans at legal risk overseas.

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The Saudi threat comes as the dispute comes as **bipartisan criticism** is growing in Congress about Washington's alliance with Saudi Arabia, for decades a crucial American ally in the Middle East and half of a partnership that once received little scrutiny from lawmakers. **Last week, two senators introduced a resolution that would put restrictions on American arms sales to Saudi Arabia, which have expanded during the Obama administration.**

Meanwhile, families of the Sept. 11 victims have used the U.S. court system to try to hold members of the Saudi royal family, Saudi banks and charities liable because of what the plaintiffs charged was Saudi financial support for terrorism. These efforts have largely been stymied, in part because of a 1976 law that gives foreign nations some immunity from lawsuits in American courts.

It is this law that the proposed Senate Bill intends to overturn; it is this Bill that Saudi Arabia is suddenly in arms over.

And it is the Saudis that Obama is siding over instead of his own people.

But of course, Obama can't openly come out and say he would rather keep the truth of Saudi involvement buried than push for a probe, so Obama administration officials counter that "weakening the sovereign immunity provisions would put the American government, along with its citizens and corporations, in legal risk abroad **because other nations might retaliate with their own legislation.** Secretary of State John Kerry told a Senate panel in February that the bill, in its current form, would "**expose the United States of America to lawsuits and take away our sovereign immunity and create a terrible precedent.**"

In a closed-door briefing on Capitol Hill on March 4, Anne W. Patterson, an assistant secretary of state, and Andrew Exum, a top Pentagon official on Middle East policy, told staff members of the Senate Armed Services Committee that American troops and civilians could be in legal jeopardy if other nations decide to retaliate and strip Americans of immunity abroad. They also discussed the Saudi threats specifically, laying out the impacts if Saudi Arabia made good on its economic threats.

In other words, the logic is that if the US pursues a full-blown inquiry into the Saudi role behind 9/11, the US itself would be subject to a comparable stripping of immunity - with respect to alleged U.S. terrorist attacks - and "create a terrible precedent." **In effect, the US government is defending its position by saying that if one can get to the bottom of Saudi terrorism in the U.S., the world may next learn about U.S. terrorism across the globe.**

And that just can't be allowed to happen.

Meanwhile, even as Obama fights tooth and nail to protect the Saudi's dirty laundry, the administration pretends to side with US citizens: "John Kirby, a State Department spokesman, said in a statement that the administration stands by the victims of terrorism, "especially those who suffered and sacrificed so much on 9/11." **It just refuses to reveal those who are truly responsible for their death.**

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But back to the Saudi (mostly hollow) threat of dumping US Treasuries should the proposed Bill be passed, which indeed is nothing more than just that, especially since the Fed or BOJ would be delighted to have found a willing seller who has as much as three quarter of a trillion in US paper lying around.

Edwin M. Truman, a fellow at the Peterson Institute for International Economics, said he thought the Saudis were most likely making an "empty threat." **Selling hundreds of billions of dollars in American assets would not only be technically difficult to pull off, he said, but would also very likely cause global market turmoil for which the Saudis would be blamed.**

Moreover, he said, it could destabilize the American dollar — the currency to which the Saudi riyal is pegged.

"The only way they could punish us is by punishing themselves," Mr. Truman said.

Well, they would also punish the Fed, because suddenly the Petrodollar would re-emerge as the main driving force behind the value of the greenback.

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And yet, perhaps the Saudis have reason to panic: the Senate bill is an anomaly in a Congress fractured by bitter partisanship, especially during an election year. It is sponsored by Senator John Cornyn, Republican of Texas, and Senator Chuck Schumer, Democrat of New York. It has the support of an unlikely coalition of liberal and conservative senators, including Al Franken, Democrat of Minnesota, and Ted Cruz, Republican of Texas. It passed through the Judiciary Committee in January without dissent.

"As our nation confronts new and expanding terror networks that are targeting our citizens, stopping the funding source for terrorists becomes even more important," Mr. Cornyn said last month.

It is almost as if Congress has decided to end the long-running alliance the U.S. has had with Saudi Arabia, despite the bitter protests of the administration; it has decided to use the Sept.11 disclosure as its own bargaining chip.

To be sure, as the NYT notes, the alliance with Saudi Arabia has frayed in recent years as the White House has tried to thaw ties with Iran — Saudi Arabia's bitter enemy— in the midst of recriminations between American and Saudi officials about the role that both countries should play in the stability of the Middle East. But the administration has supported Saudi Arabia on other fronts, including providing the country with targeting intelligence and logistical support for its war in Yemen. The Saudi military is flying jets and

dropping bombs it bought from the United States — part of the billions of dollars in arms deals that have been negotiated with Saudi Arabia and other Persian Gulf nations during the Obama administration.

The war has been a humanitarian disaster and fueled a resurgence of Al Qaeda in Yemen, leading to the resolution in Congress to put new restrictions on arms deals to the kingdom. Senator Christopher S. Murphy, Democrat of Connecticut, one of the resolution's sponsors and a member of the Senate Foreign Relations Committee, said that Congress has been "feckless" in conducting oversight of arms sales, especially those destined for Saudi Arabia.

"My first desire is for our relationship with Saudi Arabia to come with a greater degree of conditionality than it currently does," he said.

That also appears to be Obama's last desire; while the only desire Saudi Arabia has is to maintain the status quo, one where nobody looks at who pulled the strings behind Sept. 11 and in exchange for which the Saudis would continue dutifully recycling petrodollars, or if they don't get their way, they will simply proceed to launch the biggest liquidation of US Treasuries in history. Or such is their stunning threat..

Which brings us to the original question: why the Saudi panic, and why immediately threaten with the "nuclear option", namely liquidating US Treasuries, if the Saudis have nothing to hide?

The question is, of course, rhetorical.

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