REVAMPING ENERGY POLICY IN SAUDI ARABIA: A VIEW TO THE FUTURE

Jim Krane, Ph.D., Wallace S. Wilson Fellow for Energy Studies

INTRODUCTION

The accession of a new king in Saudi Arabia and the kingdom’s intervention in Yemen have overshadowed important moves to reform two of the kingdom’s key institutions.

Incoming King Salman has taken steps to prepare Saudi Arabia for a new generation of leaders, both within the royal family and among the world’s largest oil export sector and its marquee company, Saudi Aramco. The changes involve installing new personalities into key positions and shifting the roles of long-serving managers.

The reforms were ongoing at the time of writing, and their overall effect remained unclear. On the one hand, King Salman has launched preparations for reorganizing and consolidating oversight of the kingdom’s energy sector. On the other, he has given new political and economic powers to a young and untested son, which represents a breach with previous practice and, as some have observed, adds a dimension of risk. As is typical, the Saudi regime has provided few explanations. Overall, the moves ought to enhance the resilience of the kingdom and its economy by shifting leadership responsibilities to a younger generation.

HANDOFF TO NEW LEADERSHIP

The death in January of King Abdullah and subsequent accession of his half-brother Salman has resulted in a shake-up of personalities and procedures within the monarchy. These changes have attracted little attention outside the kingdom, but remain of vital importance for maintaining the legitimacy of monarchical rule and the health of economic structures underpinning the system.

King Salman has moved to consolidate his rule and reshape Saudi governance after years of stagnant policymaking, particularly in energy. In April, the king replaced the man who would be his immediate successor, his half-brother Prince Muqrin, 69, and installed as crown prince the long-serving interior minister, Prince Mohammed bin Nayef, 55. In so doing, the king removed one of the last sons of founding monarch Abdulaziz ibn Saud from the pool of succession candidates, effectively bequeathing future control of the monarchy to the next generation. Nayef is the first grandson of ibn Saud to hold the title of crown prince.

This handoff is significant to Saudi watchers because it has been accomplished without provoking turmoil or controversy. Western commentators have long pointed to the generational shift as a key weakness in the succession mechanism. Some predicted that competition among hundreds of grandsons with claims to the throne would
This early success comes alongside changes to the control and organization of the kingdom’s energy sector, which, if executed effectively, could allow Saudi Arabia to improve internal efficiency and increase the longevity of its energy-dominated economy.

INTERNAL VERSUS EXTERNAL COMMITMENTS

The energy sector in Saudi Arabia has grown increasingly complex, with internal demand competing with the kingdom’s fundamental role as the globe’s largest oil exporter. For the past half-decade, Saudi Arabia has consumed roughly a quarter of the crude oil it produces, much of which is burned to generate electricity. The growth of internal oil consumption has increased the urgency of balancing the kingdom’s competing energy priorities. The challenges include:

- Maintaining crude oil production and export markets, along with leadership of the OPEC cartel, amid the twin challenges of internal demand growth and the increases in non-OPEC oil supply.
- Diversifying the Saudi economy by building up Saudi Aramco’s refining capacity, along with further integration of downstream industries. These priorities have created employment opportunities at the expense of increasing domestic demand for crude oil, which, in turn, challenges the kingdom’s vaunted flexibility in oil exports.
- Funding enormous capital investments required to meet increasing domestic demand for electricity, while simultaneously attempting to transition away from exportable oil feedstock in favor of domestic natural gas.
- Reducing domestic energy demand growth by reforming longstanding subsidies, while finding an alternate formula for maintaining public support for the regime.

King Salman’s reshuffling of the cabinet appears to have pushed the kingdom toward a better capacity to handle these languishing priorities.

PARSING THE CHANGES IN SUCCESSION AND PERSONNEL

Among the actions taken by the new king following the dismissal of Crown Prince Muqrin were the appointments of two grandsons of ibn Saud as crown prince and deputy crown prince and the replacement of a veteran foreign minister.

The new crown prince, Mohammed bin Nayef, is the nephew of King Salman and a familiar figure in Washington and among the important constituency of oil market analysts. His long administrative and security experience marks him as a confidence-inspiring representative of the younger generation of the al-Saud family.

The new deputy crown prince—third in line for the throne—is the king’s son Mohammed bin Salman, who is in his 30s. Despite being comparatively young and little-known outside the kingdom, Mohammed bin Salman has been given powerful new positions, including chief of the royal diwan, or court, and—most significantly—as defense minister. As such, he has overseen the kingdom’s very public intervention in neighboring Yemen, which, at the time of writing, has caused a humanitarian crisis while failing to meet the strategic goal of unseating a rebel movement disliked by Riyadh.

Mohammed bin Salman has also garnered key roles in the economy and energy sector, discussed below. This array of powers, it is argued, could allow him to emerge as an eventual challenger to Crown Prince Mohammed bin Nayef.

Another long-serving royal, Foreign Minister Prince Saud al-Faisal, 75, has also been replaced by a younger candidate and a non-royal, Adel al-Jubeir. Al-Jubeir was the most recent Saudi Ambassador to Washington.

Each of these personnel changes reinvigorates leadership in key positions of
political and economic control and in foreign relations. The moves appear to reinforce the kingdom’s changing role in energy markets; its drifting relations with the United States; and its closer ties with Asia, the most important source of future growth in global energy demand.\(^8\)

## ENERGY SECTOR RESTRUCTURING

King Salman has reserved his broadest actions for the energy sector, driving through several institutional and personnel changes. More extensive actions could be afoot. Initial maneuvers include promotion of younger managers and increases in the decision-making autonomy of the national oil company, Saudi Aramco, by far the world’s largest oil company.

More specifically, King Salman has abolished the Supreme Petroleum Council, a policymaking advisory body led by the king. In its place he created a new 10–member Supreme Council for Saudi Aramco (SCSA), delegating responsibility for heading it to his son Prince Mohammed bin Salman, the deputy crown prince. Despite a lack of practical experience, the young prince now holds the kingdom’s highest-ranking position in energy policy.\(^7\)

In his new role, Mohammed bin Salman has announced a plan to place Saudi Aramco and its headquarters in the oil-producing Eastern Province beyond the direct control of the Ministry of Petroleum and Minerals in Riyadh.\(^8\) The arrangement may allow Aramco to pursue long-term ambitions to become a more efficient, vertically integrated oil and petrochemicals company, with greater autonomy from the social welfare requirements of Riyadh and the market intervention demanded by OPEC. And while a few observers have cautioned that reduced oversight on Aramco leaves the company more vulnerable to royal family pressure, the opposite case is more likely. As argued by one analyst, the board of the SCSA will be dominated by some of the top technocrats in the kingdom’s energy sector, which may actually reduce ruling family influence,\(^9\) leaving it freer to pursue business aims, rather than national development goals. Although the full board membership has not been announced, at least half of the members of the SCSA will come from within Saudi Aramco.\(^10\)

Saudi Aramco CEO Khalid al-Falih has handed day–to–day control of the NOC to Amin Nasser, a younger Saudi executive who formerly headed Aramco’s production and exploration division. Nasser has been named acting president and CEO.

In return, King Salman has increased reliance on al-Falih’s managerial expertise by giving him two new roles. He has been appointed as the kingdom’s minister of health, a seemingly incongruous position for an oil man, but attributed by Saudi papers to his administrative skills. Al-Falih’s mandate is to revamp an underperforming ministry that has seen five leaders fired over the past year.\(^11\) In particular, the Health Ministry’s campaign against the recent outbreak of the Middle East Respiratory Syndrome (MERS) virus has been condemned as ineffective.

Al-Falih has also been named chairman of Saudi Aramco, replacing Ali al-Naimi, the long–serving minister of petroleum and minerals. Some reports suggest al-Falih’s simultaneous chairmanship and relinquishment of day–to–day control of the NOC is a prelude to a future appointment as petroleum minister when al-Naimi announces his expected retirement. A further possibility, discussed below, is that al-Falih could head a yet–uncreated energy oversight administration that would provide much needed bundling of domestic and international energy policy.

## MORE CHANGES AFOOT

The changes outlined above may represent only a portion of King Salman’s plans for energy sector governance. Since Saudi Arabia’s long–term economic well–being is so closely tied to oil, further changes are likely.

Among these are the replacement of oil minister al–Naimi, who has served in the post since 1995 and who is well known to be ready to hand off his responsibilities. Al–Naimi has already been relieved of his position as...
If Saudi Arabia is to remain a major oil supplier to the world, demand management and diversification of generation technology must become a national priority.

Aramco chairman, which (as mentioned) went to al-Falih.

Beside al-Falih, a second candidate for the oil minister’s job is another of King Salman’s sons, deputy oil minister Prince Abdulaziz bin Salman. Prince Abdulaziz is al-Naimi’s number two, a royal family member potentially vying for a position that has traditionally gone to a commoner. Crucially, Prince Abdulaziz is a strategic thinker who is said to be keen to reform subsidies driving unsustainable growth in domestic energy demand. His ascendency would reinforce technocratic voices within the ministry and Saudi Aramco for a rationalization of domestic energy use.

Some observers have suggested that detaching Saudi Aramco from ministry control would effectively downgrade the minister’s job description. However, even with reduced ministerial control over Aramco, the increasing complexity of Saudi Arabia’s domestic energy sector—with its new downstream industries and expanding infrastructure—means that the oil minister’s job will remain an important one.

Discussions also point to the possible creation of a more comprehensive energy oversight agency, an “energy super ministry.” An expanded body might balance the ministry’s current portfolio, predominantly focused on crude oil production and export, with growing concerns in domestic energy policy.

These concerns include the long-awaited integration of domestic electricity policy. Power generation has grown into a huge source of oil demand, hitting a record of 900,000 barrels per day last July, along with expectations for another 410,000 b/d in new consumption in oil-fired power plants now under construction. If Saudi Arabia is to remain a major oil supplier to the world, demand management and diversification of generation technology must become a national priority. An enhanced “ministry of energy” with a broadened mandate might more effectively face the difficult task of reforming subsidies on electricity, fuel, and water, as well as overseeing competing industrial demand for oil and gas.

If this were the case, al-Falih or Prince Abdulaziz would be among the top candidates to head such a ministry. Even though the kingdom’s previous oil ministers have all come from outside the ruling family, a tradition that would exclude Abdulaziz, King Salman has shown himself willing to act independently of similar traditions.

CONCLUSION

King Salman’s moves in energy appear aimed at invigorating a sector that has stagnated in recent decades. As it languished, control over distributed elements of the Saudi energy landscape remained disjointed, with separate agencies controlling production of electricity and water, industrial policy, and oil and gas. Centralizing the supervision of those sectors would consolidate policy in the most important economic sector in Saudi Arabia. In turn, consolidation could catalyze long-overdue reforms, as long as Saudi Aramco and the profit-making petrochemical sector are given freedom to pursue paths of growth and efficiency.

Policies that provide more autonomy to Saudi Aramco, one of the world’s most efficient NOCs and possibly the kingdom’s most capable institution, combined with cohesive energy policymaking, would seem to be welcome developments.

Whether or not those are the new king’s immediate aims still remain unclear. However, Saudi Arabia is facing long-term threats to its oil export business, whether from the potential for reduced international demand—perhaps linked with climate change policy—or from continued growth of its internal consumption. Facing these evolutionary challenges will require new and innovative policies.

As the younger generation of leaders consolidates its control in the coming months, the world will gain a clearer view of whether or not the restructuring succeeds in improving the resilience of the Saudi economy.
ENDNOTES


4. At least 1,000 Yemenis were killed and 300,000 displaced by May 1, 2015, in the Saudi-led bombing campaign. Kareem Fahim, “Yemenis in Desperate Need of Food and Fuel After Weeks of Airstrikes,” New York Times, April 20, 2015.


6. For more on this topic, see Krane, “A Refined Approach.”


10. Members of the SCSA thus far include Majid al-Moneef, a Saudi economist who represented the kingdom within OPEC; Minister of Petroleum and Minerals Ali Al–Naimi; Finance Minister Ibrahim Al–Assaf; Economy Minister Adel Fakeih; Water and Electricity Minister Abdullah Al–Husayen; and Aramco’s Al–Falih. See “Saudi Aramco to be restructured,” Arab News, May 1, 2015, http://www.arabnews.com/saudi–arabia/news/740861.


AUTHOR

Jim Krane, Ph.D., is the Wallace S. Wilson Fellow for Energy Studies at the Baker Institute’s Center for Energy Studies. His research addresses the geopolitical aspects of energy, with a focus on the Middle East. Krane is a longtime journalist who reported from the Middle East for more than five years. He was based in Iraq in 2003–04, where he covered the aftermath of the US invasion and ensuing insurgency. He lived in Dubai from 2005 until 2009, and wrote about the energy–rich Persian Gulf region. Krane received his Ph.D. from Cambridge University.