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Saudi Aramco as a national development agent: recent shifts

Policy brief

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Saudi Arabia’s national oil company, Saudi Aramco, has been a critical agent for the social, economic and infrastructural development of Saudi Arabia; its managerial capacities are unrivalled in the Kingdom – and, indeed, the Gulf region. After it played a rather limited role outside the hydrocarbons sector in the 1980s and 1990s, its range of tasks and ambitions has recently again expanded drastically into a number of new policy sectors, including heavy industry, renewable energy, educational reform, infrastructure-building and general industrial development. This presents both opportunities and risks for Aramco, which has started to operate far outside its traditional politically insulated “turf” of running the upstream oil and gas infrastructure in the Kingdom. It is now involved in activities that are more political and more closely scrutinised by the Saudi public, and will have to build up new institutional and political capacities to maintain its reputation for clean and efficient management.

Saudi Aramco has not only been in charge of the assets that generate more than 85% of Saudi exports and more than 90% of government revenue. Since its creation as a U.S. concessionaire in the 1930s it has also contributed to building important parts of the Saudi private sector through its contracting efforts and local business development programme. Although its early role in national development is subject to some dispute, it has played an important part in building Saudi infrastructure, especially in the strategic Eastern Province, and in training an advanced industrial and managerial workforce. Many former Aramcons have used their experience with the company to join the ranks of Saudi entrepreneurs.

Differently from other national oil companies, Aramco was taken over from its original U.S. owners in the 1970s in a comparatively smooth fashion. It has retained its U.S. corporate culture, although it has been 100% government owned since 1980 and is run mostly by Saudis. It is now generally ranked as the most efficient national oil company among all Organisation of the Petroleum Exporting Countries (OPEC) countries.

Saudi Aramco has retained a rather high level of operational autonomy since it became state owned. It has also retained its cultural autonomy and remains an enclave in whose compounds genders are allowed to mix and women can drive. While the company discloses little information – a stance it has arguably developed as a self-defence mechanism – it is generally seen as the most efficient part of the Saudi public sector. Senior royals have been instrumental in protecting it from predation or meddling by either the national bureaucracy or the wider ruling family.

Differently from some other Gulf monarchies, no royals hold any senior positions in Aramco and the minister of petroleum and mineral affairs, himself a former Aramco man, is also a commoner. While two important royals are deputies in the Ministry of Petroleum, their portfolios are
rather clearly delimited and they tend not to get directly involved in company affairs. In the past, the powerful (royal) governor of the Eastern Province reportedly intervened in some Aramco land and contracting issues, but he was dismissed in early 2013.

The Supreme Petroleum Council, the highest body determining oil and gas policy in Saudi Arabia, is chaired by the king and contains several royal ministers. But while it signs off major policy initiatives, most policy research and strategic proposals emerge from within Aramco; even the Ministry of Petroleum mostly relies on Aramco for research and remains a comparatively slim institution with limited autonomous capacity.

Saudi Aramco remains the preferred employer of a large number of young and ambitious Saudi graduates; its managers and engineers are held in high esteem in the international petroleum business. From about the 1970s, however, it lost some of its pre-eminence in national development as the rest of the state apparatus grew and could take on new public service tasks on the back of rapidly growing oil revenues.

This trend now seems to have been reversed: while the Saudi state has continued to grow, policy challenges have grown even faster and Aramco is once again at the forefront of social and economic development outside of the hydrocarbons sector. This is partially an outcome of higher oil income and increased demands on the part of government and the royal leadership, but is also driven by a more assertive vision of the company’s role developed under the chief executive officer (CEO) since 2009, Khaled al-Faleh.

Between the 1970s and 1990s Aramco had mostly limited itself to operating the Kingdom’s upstream hydrocarbons sector and a number of refineries, managing parts of the Eastern Province infrastructure, and providing services in health and education as part of its corporate social responsibility programmes.

The list of new projects, sectors and tasks has grown exponentially during the last decade, however. Aramco has decided to expand strongly into petrochemicals through world-scale joint ventures with Sumitomo and Dow. According to Al-Faleh, planned investment amounts to $60 billion and the ambition is to be among the top three large OPEC producers – its role in training has become huge. It invests considerably in internal staff development, with more than 3,000 industrial workers undergoing training in 2012 and more than 1,000 Aramcons studying on scholarships in the U.S.

Aramco is also trying to redefine its role in its upstream core business. While it generally has been a [capable] consumer of international technology, it now wants to become a technology leader. It has invested strongly in its research and development capacity, building up partner-ships with international universities and research centres in Houston, Massachusetts and Saudi Arabia. Its new technology venture capital arm, Saudi Aramco Energy Ventures, recently identified Norwegian partners with which it will invest up to $120 million a year in European start-up companies. The company also set up its own commodity-trading arm in January 2012. Plans for a $4 billion shipyard joint venture with the South Korean shipping company STX were reported in March 2012.

Of potentially greater importance for Saudi Arabia’s future, Aramco is also getting increasingly involved in industrial development outside of hydrocarbons and heavy industry. The government has asked it to be the lead agent on developing Jizan Economic City, a struggling project in Saudi Arabia’s underdeveloped south built around a refinery for which no private investors were found. While the Jizan project might have been imposed on the company (and apparently will require the commercially questionable shipping of crude oil around the Arabian Peninsula), Aramco is also proactively pushing for the development of downstream manufacturing through industrial parks attached to its large petrochemicals projects with Dow and Sumitomo. Together with the Ministry of Petroleum, it is furthermore attempting to push national industrialists – who rely on Aramco’s cheap gas and oil products as feedstock – away from basic petrochemicals and the energy-intensive manufacturing of basic building materials towards higher value-added production.

The company has also stepped up its support for Saudi small and medium-sized enterprises and entrepreneurship through a variety of training and financing initiatives. While its own workforce remains comparatively slim – 56,000 employees in 2011, a fairly small number by the standards of large OPEC producers – its role in training has become huge. It invests considerably in internal staff development, with more than 3,000 industrial workers undergoing training in 2012 and more than 1,000 Aramcons studying on scholarships in the U.S.

The need to accommodate these new graduates appears to be one of CEO Al-Faleh’s core concerns and drives some of the activism pushing Aramco into new business fields. The training programmes also reflect a renewed commitment to shaping the Kingdom’s young managerial elites, which had been somewhat thinned out in the austere 1980s and 1990s when resources for overseas scholarships had dwindled.

Outside of employee training, the company has launched a “youth enrichment” programme in co-operation with various local organisations under which 2 million Saudis are supposed to be trained by 2020. King Abdullah also tasked Aramco with setting up the King Abdullah University of Science and Technology from 2009 onwards, which is a selective graduate institute with an endowment of $10 billion (which initially was outside the control of the Ministry of Higher Education).
Finally, Aramco is trying to grow its broader policy research capacity: in 2008 it was put in charge of the King Abdullah Petroleum Studies and Research Centre, a national energy think tank. At the same time it is building an internal economic and energy research department to assist in defining its national development role.

Saudi Aramco is the most capable organisation in Saudi Arabia. On an individual basis, for many of the development tasks it has taken on – or been charged with – it is indeed a good choice. The question is whether the breadth of all its tasks combined might become overwhelming, dilute the managerial focus of the company and lead to a “mission creep” of ever-expanding follow-up tasks. The answer to this is not obvious, but it is a question to keep in mind when watching the company over the coming years. When Aramco was tasked with the building of a stadium and sports city in Jeddah in 2009 – when other government agencies were apparently not perceived to be up to the task – some observers already wondered whether it was being turned into a surrogate government.

Aramco has an unparalleled track record on building and managing large physical infrastructure. It remains to be seen how astute its engineers will prove to be in navigating the treacherous waters of domestic energy reform, industrial policy or educational modernisation. One of the company’s core strengths has always been that of being perceived as separate from politics in Riyadh (and, indeed, parts of its management are blissfully unaware of the goings-on among Riyadh-based elites). This stance will be harder to maintain as Aramco takes on more government tasks and it runs the risk of coming under public attack.

In the wake of a minor corruption scandal involving Aramco and the U.S. valves company Tyco in 2012, several op-eds in the Saudi press criticised Aramco in an unusually open way. As one editorialist complained, “Aramco is a shielded fortress and nobody knows what is going on inside”. This state of affairs will be harder to maintain as the company gets more directly involved in national development.

Aramco now has important and visible stakes in industrial diversification; domestic energy reform; national employment; entrepreneurship; and secondary, vocational and higher education. It has become a political player, but it is not run by politicians: its senior management below the topmost level consist primarily of engineers who are instinctively careful and probably lacking the appetite to get involved in more controversial policy fields or the experience to defend the company’s interests publicly.

Much will depend on the top leadership. CEO Al-Faleh was born in 1960, which makes him quite young by Saudi standards. He is generally given high grades and could stay in his position for a long time – but he might also become minister of petroleum once Ali al-Naimi retires: the latter was born in 1935 and has repeatedly expressed his wish to step down. The choice of Al-Faleh’s successor would be one of the most important personnel decisions of the coming decades in the Kingdom, possibly more important than the choice of minister of petroleum. None of Aramco’s tasks is impossible to accomplish through politically astute leadership, but these tasks have become radically more demanding and require not only great managerial talent, but also great political talent.

The Author

Steffen Hertog is an associate professor of comparative politics at the London School of Economics. His research interests include Gulf and Middle East politics and economics, as well as the political economy of the developing world more broadly. His book about Saudi state-building, Princes, Brokers and Bureaucrats: Oil and State in Saudi Arabia, was published in 2010. He has worked with the World Bank, the Organisation for Economic Co-operation and Development, the European Commission and others on projects relating to labour market, public sector reform and trade issues in the Gulf Co-operation Council region.

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