

Shift in Saudi Oil Leadership

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May 5, 2015

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Brief Analysis

The latest restructuring in the Saudi hydrocarbon sector could mean new policies for the world's largest oil exporter.

On May 1, two days after making radical changes in the kingdom's royal succession order and senior government posts, Riyadh announced that governance of the state-owned oil company Saudi Aramco has been restructured. As with the previous changes ([see "Riyadh Reshuffle" \(http://www.washingtoninstitute.org/policy-analysis/view/riyadh-reshuffle\)](http://www.washingtoninstitute.org/policy-analysis/view/riyadh-reshuffle)), a major beneficiary of the latest announcement is King Salman's favorite son Muhammad, a.k.a. MbS, the thirty-something defense minister and deputy crown prince who has now been named chairman of Saudi Aramco's newly formed ten-member Supreme Council. The post will give the prince crucial input into future Saudi oil policy, even though his qualifications for that role are meager at best.

Until now, Saudi Aramco has been responsible for exploration, production, and marketing while the Oil Ministry (officially known as the Ministry of Petroleum and Mineral Resources) has concerned itself with policy. An umbrella body called the Supreme Petroleum Council once played an obscure role in the policymaking process, but King Salman abolished it immediately after his January accession.

Although separate entities, the Oil Ministry and Saudi Aramco have worked for years in apparent harmony as symbolized by the role of Ali al-Naimi, the seventy-nine-year-old company veteran who until last week served as both oil minister and Aramco chairman. He lost the latter, mainly honorary, position last week to Khalid al-Falih, another Aramco lifer. This change could precipitate Naimi's long-expected retirement as minister. Meanwhile, MbS will likely get to choose the next minister in his role as president of the Council of Economic and Development Affairs. Among the probable candidates is his older half-brother Abdulaziz, the long-serving assistant oil minister who was promoted to deputy minister when Salman became king. But MbS is said to dislike his sibling, so he may

choose a nonroyal instead.

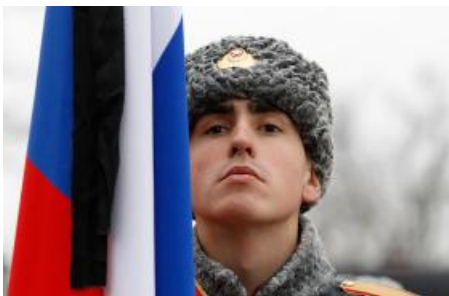
Whatever the case, Naimi's exit could bring changes to Saudi oil policy, which he has guided cautiously and, on the whole, successfully for the past twenty years. He appeared to be as surprised as anyone by how quickly and deeply oil prices fell in the past twelve months. His apparent policy has been to suffer the drop while retaining market share, a tactic that proved at least partially correct in that prices have recovered from the low of below \$50 per barrel to around \$60 today. But the kingdom needs a minimum price of around \$100 per barrel to sustain its current budgetary approach in the long term -- a figure that seems unlikely to reoccur any time soon barring a collapse in U.S. shale oil production, which has so far proven surprisingly resilient to the price drop. Moreover, a potential U.S.-led nuclear deal with Iran could increase the amount of oil on the market, further dampening prices.

MbS's approach to oil policy is unknown, but his father's policies in the past three months border on the spendthrift. When he became king, Salman ordered a two-month salary bonus for all government employees and retirees. Although such largesse is not unusual for newly crowned Saudi monarchs, Salman also granted all military and security personnel another month's bonus just last week, apparently for their efforts in the Yemen war -- itself a massive unplanned expenditure.

Also notable in Friday's announcement was the exclusion of Crown Prince Muhammad bin Nayef (a.k.a. MbN) from the new Supreme Council. He does not sit on the Council of Economic and Development Affairs either, signaling that he will play little if any role in oil policy -- in contrast to MbS, who now holds posts on all three of the kingdom's main decisionmaking bodies, including the MbN-chaired Council of Political and Security Affairs. The new arrangements are yet another indication that Saudi government structures and political hierarchy are in a state of flux, and that MbS is poised to play a preponderant role in the future.

Simon Henderson is the Baker Fellow and director of the Gulf and Energy Policy Program at The Washington Institute. ♦

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