



Saudi Arabia's Oil and Gas Sector—An Update: Part 1

The Kingdom of Saudi Arabia's oil and gas industry has been, more than usual, in the headlines recently for two reasons. First, as world crude oil prices have dropped dramatically over the past year, the Kingdom's petroleum policy has come under particular scrutiny. Second, as an accompaniment to a new King taking the throne and a number of significant changes having occurred at the highest levels of Saudi Arabia's Government, there have also been adjustments in the leadership of the Ministry of Petroleum and Mineral Resources and the national oil company, Saudi Aramco.

This *Commentary* records the changes which have taken place, provides an outline of the current framework for investment in Saudi's oil and gas industry and seeks to identify some themes which might affect business in the sector in coming years.

New King, New Leadership

On 23 January, King Salman bin Abdulaziz Al Saud ascended the throne upon the death of King Abdullah. Six days later, on 29 January, King Salman issued a number of Royal Orders, among which were edicts abolishing the Supreme Council for Petroleum and Minerals, the Supreme Economic Council and the Supreme Council of the King Abdullah City for Atomic

and Renewable Energy. A further Royal Order created a new Council of Economic and Development Affairs ("CEDA") under the presidency of the King's son, H.R.H. Prince Mohammed bin Salman bin Abdulaziz (who had already been appointed Minister of Defence, Chairman of the Royal Court and Special Adviser to the King).

The Kingdom's long-serving Minister of Petroleum and Mineral Resources, H.E. Eng. Ali Al Naimi, was retained in his post and appointed a member of CEDA. A further Royal Order promoted another of the King's sons, H.R.H. Prince Abdulaziz bin Salman bin Abdulaziz, from his position as an Assistant Minister to the role of Deputy Minister of Petroleum and Mineral Resources in the rank of Minister. Prince Abdulaziz bin Salman is also chairman of the executive committee of the Saudi Centre for Energy Efficiency.

On 29 April, King Salman issued a second wave of Royal Orders. H.R.H. Prince Mohammed bin Salman was named the Kingdom's Deputy Crown Prince and Second Deputy Prime Minister. A new Supreme Council for Saudi Aramco was established with Prince Mohammed bin Salman as its chairman and with 10 members in total. Another Royal Order of the same day appointed H.E. Eng. Khalid Al Faleh, the

then-president and chief executive officer of Saudi Aramco, as the country's new Minister of Health.

Saudi Aramco's Board of Directors was restructured shortly afterward, with H.E. Eng. Khalid Al Faleh named as its chairman. The Ministers of Petroleum, Finance and Communications will sit on the new Board, as will the secretary of the Supreme Council of Saudi Aramco, the rector of King Fahd University of Petroleum and Minerals, three overseas representatives and Aramco's new president and CEO. On 1 May, the appointment of Amin Nasser was announced as Saudi Aramco's acting president and CEO, with the job of leading the company's senior management team.

The Royal Orders of late January and late April have brought very rapid change to the governance of the Kingdom's upstream oil and gas sector. The Ministry of Petroleum no longer oversees Saudi Aramco, although the Ministry is expected to retain general regulatory authority over the Kingdom's hydrocarbon and minerals sectors. The Ministry is, for example, still representing the country's oil production and pricing policies internationally, including in Saudi's capacity as a member of the Organisation of the Petroleum Exporting Countries. Domestically, the Ministry is continuing to allocate gas feedstock amongst the Kingdom's industrial users. The Ministry is anticipated to begin taking a greater role in promoting energy efficiency within Saudi Arabia, not least as part of a drive to reduce the quantity of crude oil which the country consumes each day in power generation.

For its part, Saudi Aramco on the one hand has become independent of the Ministry of Petroleum, but on the other hand is now more directly overseen by the highest levels of Government. H.R.H. Prince Mohammed bin Salman is both the president of CEDA and the chairman of the Supreme Council for Saudi Aramco, and five members of the Supreme Council sit on Aramco's 10-man Board of Directors. It appears to be the intention that the Supreme Council will set Aramco's broadest policies and objectives, while the Board will oversee the company's business affairs, management and strategic direction.

Looking ahead, it seems likely that there will be a further round of high-level changes which will affect oversight of the Kingdom's oil and gas industry. Current Minister of Petroleum

H.E. Ali Al Naimi is rumoured to want to retire; candidates to replace him might include H.R.H. Prince Abdulaziz bin Salman or H.E. Eng. Khalid Al Faleh. The role of president and CEO of Aramco is still to be confirmed on a full-time basis. It is also conceivable that Aramco itself might be restructured, perhaps splitting itself into an upstream company and a mid/downstream company, or at least spinning off some of the non-core infrastructure activities which the company has been given responsibility for managing and delivering.

The recent changes which have occurred, together with any other structural adjustments which might take place, will lead to a period of policy review and revision. Accordingly, there is likely to be a certain level of opacity about the Kingdom's oil and gas policies and the role of the various entities shaping the sector's governance and operations for several months yet, until the practical details of these reforms become known.

Same Legal Framework

Despite the above changes, Saudi Arabia has not yet seen any amendment of its hydrocarbon sector legislation. Oil exploration, drilling and production are still on the Government's "negative list" and thus closed to direct foreign investment; Saudi Aramco can expect to continue to enjoy its monopoly on the Kingdom's upstream concession interests. That said, foreign investment (in many areas with up to 100 percent overseas ownership) remains permitted in Saudi Arabia in oil and gas field services, geological/geophysical, surveying and testing services, as well as across the wider natural gas, refining, petrochemical, mining and metals industries.

Saudi's existing legal framework for hydrocarbon investment is therefore stable. The first step on the road to any overseas (i.e. non-Gulf Co-operation Council) investment is still, by and large, to obtain a foreign investment licence from the Saudi Arabian General Investment Authority (www.sagija.gov.sa). Most investment in the energy sector tends to proceed through the formation of a limited liability company, which is often a joint venture between foreign and local shareholders.

The legal and regulatory building blocks for any successful investment in the Kingdom—which are essential to understand at as early a stage as possible—remain the companies law (affecting how local companies are set up and managed),

the shareholders' agreements between the partners, the corporate tax regime, the labour law regime and any procurement rules maintained by the likely customers of the new company. Investors in the energy sector should also expect that they will continue to be encouraged (with some exceptions) to abide by the Government's broad policies of promoting the use of local content and ensuring a commitment to the training and employment of young Saudis.

In legal terms, it is therefore business as usual. More broadly however, because Saudi Arabia is a hydrocarbon economy, it is possible to discern a handful of themes which are now emerging—driven by Saudi's economic and fiscal requirements—that are likely to lead to changes in the nation's oil and gas laws in the mid-term. Part 2 of this *Commentary* will explore these themes in detail.

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