A financial behemoth

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Saudi Aramco's profits breached $100 billion last year thanks to reserves more than five times bigger than those of ExxonMobil, Shell, Chevron, Total and BP – combined.

This week's bond release lifted the veil on the secretive Saudi Aramco. It turns out that an oil company operating on a staid campus dotted with Ford sedans and 1950s cottages earns more than Apple and Google – combined – with fewer employees than either of them.

By producing 13 percent of the world's oil, Saudi Aramco also earns enough to not only bankroll Saudi government spending, but to generate $4 out of every $10 of the kingdom's economic activity. But there is a problem with Aramco's lucrative business. It is screwing up the climate. That's not only bad for the climate, but also for Aramco and the kingdom that depends on its earnings. In a world grappling with heat, storms and wildfires whipped up by fossil-fuel exhaust, you don't want a fossil-fuel company as your sole source of national financial stability. Since Saudi Aramco's oil and gas is the world's No. 1 source of current greenhouse gas emissions, the risk exposure widens.

The climate conundrum facing Saudi Arabia has been covered in previous work at Rice University's Baker Institute for Public Policy and elsewhere. But the Aramco bond prospectus marks the first time the company has publicly concurred with academic warnings that, at some point, people may rebel against its business model:

"Climate change concerns manifested in public sentiment, government policies, laws and regulations, international agreements and treaties and other actions may reduce global demand for hydrocarbons," Aramco's prospectus stated. It added that these actions would "have a material adverse effect on the Company's business, financial condition and results of operations."

In short, the possibility that the world may get serious about climate action is a risk to Saudi Aramco profits. The risks don't stop with the company. Aramco's oil revenues underpin not only the Saudi economy, but patronage-based governance by the al-Saud family. The generous welfare benefits provided to every Saudi citizen ride on Aramco's ability to sell oil in the face of climate action. So the risk exposure widens even further. The layers of compounding risk may be one reason why Aramco is keen to pass along some of that risk to bondholders. And a reason that Aramco was, until recently, preparing to sell ownership shares directly to foreign investors – and may still do so.

But the power of oil works in strange ways. What does Saudi Arabia plan to do with the cash it raises? The revenues fund the government's sweeping plans to diversify its economy beyond exports of crude oil and into petrochemicals and other downstream industries, manufacturing, mining and tourism. Climate change may be hastening diversification, but oil is paying for it. So, oil allows Saudi Arabia to insulate itself from some of the risks to the oil business. Even in a climate-constrained world, it's good to have oil.

There are other paradoxes about Saudi Aramco that the prospectus acknowledges. The company's loyalties are to Saudi citizens and the Saudi state, not to shareholders or bondholders. In fact, Aramco says it is prepared to spurn profits in order to:

Enhance the geopolitical power of Saudi Arabia. Supply Saudi citizens with cheap gasoline and Saudi companies with cheap natural gas. Keep 10–15 percent of its production capacity unused and on standby, despite investing tens of billions of dollars to build that idled infrastructure. The prospectus coolly warns investors that Aramco works for the Saudi regime, which "may in its sole discretion increase or decrease the Kingdom's maximum crude oil production at any time" based on geopolitical and economic conditions, energy security goals or, in-
indeed, "any other reason." The company cautions that there are "no guarantees" that idle production capacity will ever be brought on stream.

But state ownership also brings advantages. A big one is sovereign immunity from prosecution. Sovereign immunity may protect Aramco from lawsuits based on the company's role in climate change. But it also allows Saudi oil officials to openly collude with other producer governments to restrict the flow of oil to international markets and thus raise oil prices and profits. Shareholder-owned oil companies tried this in 1928 at a secret meeting in a Scottish castle. Doing so now would be illegal. Sovereign immunity is not ironclad, however, and the prospectus notes that attempts to lift it have emerged in the form of the U.S. Congress' NOPEC legislation, as well as various lawsuits by subnational governments, interest groups and individuals.