

News Release, 9 May 2016

Saudi Energy Policies Unlikely to Shift Under New Minister

Saudi Arabia's energy policies are unlikely to change despite the fact that longtime energy minister, Ali al-Naimi, was removed on May 7 and Khalid al-Falih appointed as his successor.

There has already been much speculation and concern about the kingdom's energy policies under King Salman. Questions about the future of Saudi Arabia's oil policies are important given the prevailing period of glut and low oil prices. A few facts, however, should be considered.

An expected change: The appointment of energy ministers has traditionally coincided with dynastic shifts in the kingdom. Saudi Arabia has had five oil ministers since 1960. Abdullah Tariki served from 1960 to 1962. King Faisal appointed Ahmed Zaki Yamani as his successor. Yamani served from 1962 to 1986. King Fahad appointed Hisham Nazer to succeed Yamani. Nazer served from 1986 to 1995. And King Abdullah appointed al-Naimi energy minister in 1995.

Al-Naimi's removal, therefore, should come as no surprise. It should also be seen in the context of the "shake up" of the kingdom's broader energy and economic policies being planned by Deputy Crown Prince Mohammad bin Salman.

Al-Naimi, who is in his eighties, has on several occasions indicated his desire to retire. Al-Falih, who is also President and Chief Executive of Saudi Aramco, was a natural choice to replace al-Naimi considering that he is from the same team that al-Naimi previously led.

Traditional trend: Saudi Arabia has traditionally appointed a person with technical expertise as energy minister and as head of Saudi Aramco rather than choosing a member of the royal family. In this sense, too, al-Falih fit the bill. With a technical petroleum background and education, he has more than three decades of experience working in the energy industry and Saudi Aramco.

Saudi energy policy

Al-Falih was part of al-Naimi's team and will likely continue the same policies. As explained in a previous release on "Oil Prices Will Determine Prospects of Deal to Cut Production", dated 18 April 2016, we do not expect the kingdom to cut its oil production in time for the June meeting of the Organization of the Petroleum Exporting Countries (OPEC).

Saudi Arabia is determined to protect its market share and will not give this up to its rivals—either Iran or Russia, or to US shale oil. Even though al-Naimi designed and implemented a strategy of low oil prices and maximizing the kingdom's market share, it seems that the new leadership is more keen than ever on continuing this policy. The deputy crown prince, in particular, is serious about maintaining current production levels and continuing a policy based on the belief that markets, not OPEC members, determine prices.

In April, at the Doha summit that aimed to freeze oil production, some disagreements between the Saudi deputy crown prince and al-Naimi over the kingdom's oil production policy were revealed. Saudi Arabia's decision, which was influenced by the deputy crown prince's views, was that the kingdom would not freeze oil production until Iran formally commits to do the same. It is then safe to say that the new energy minister will continue the kingdom's oil production policies, albeit with a more cautious and conservative approach.