

**Keynote Address by Khalid A. Al-Falih,
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“Addressing the *Real* Sustainability Challenge”

Ladies and gentlemen, *bonjour* and good morning. I would like to begin by thanking Secretary General Noé Van Hulst for the opportunity to deliver this keynote address and share my views with such a distinguished audience.

My friends, as we meet today much of the world is grappling with lingering unemployment, the return of re-regulation, and the need to rebalance the economy to promote stability and growth. New patterns of international trade, commerce and investment are emerging. Social and political unrest is engulfing various parts of the Middle East. And while the world struggles with these issues, it was also shaken by last month's devastating and tragic earthquake and tsunami in Japan. For better or worse, we live in a world that is both constantly changing and increasingly interdependent.

Of course, a common thread running through nearly all aspects of today's world is the ubiquitous energy which is so essential for modern life. As we have recently been reminded, such momentous events can have acute impacts on energy, and in turn economic stability, which requires swift and decisive action on the part of energy companies and policymakers alike.

Yet we should not be diverted from our long-term mission and fundamental responsibilities as energy providers by these breaking events, any more than a

well-built and well-crewed ship is blown off course by a passing storm. The day-to-day gyrations of the petroleum markets and the news feed rolling across our TV screens should be viewed in perspective and kept in context. So while it is imperative that we demonstrate short-term agility, it would be a mistake to overreact to events in a manner that throws us off course from our future goals.

Therefore, I believe we must work more diligently to articulate and realize a long-term vision for the future of petroleum, both individually and collectively, and whether NOCs, IOCs, service companies, technology developers or EPC contractors. Central to such a vision is a *holistic* view of the ultimate *sustainability* of energy and business, including the promotion of prosperity, social progress and environmental protection *as well as* profitability, which of course is essential for us to meet these other obligations.

Adopting such a view forces the question, “What is the larger public good that we serve as petroleum enterprises?” I would organize the evolution of the industry’s response to that question, as well as the expectations of our stakeholders, into three distinct and successive phases.

Early on, many saw the “mission” of oil companies as limited to finding and producing oil, and refining, transporting and delivering products to consumers. Companies therefore simply tried to run their operations as efficiently and cost-effectively as possible in order to preserve their capital and maximize profits for their shareholders.

Next came the growing importance of public health related to our products, environmental safeguards, and the safety of employees and operations—all very

positive steps. Yet despite these improvements, the oil industry's contributions to growing the GDP of producing nations, to capacity building, and to overall economic transformation and job creation remained limited. This led to discontent in many producing regions, elevating tensions, undermining trust, and even threatening supplies.

Partially as a result of those shortcomings, today we see the emergence of a third generation of societal expectations which substantially expand the role of petroleum companies in promoting economic development and social progress. In other words, it is increasingly apparent that people the world over are willing to grant the energy and oil industries—and in fact, any industry—a social license to operate *only* if their business activities have a wider and more positive ripple effect in the markets and communities where they conduct their business.

Such a paradigm requires a greatly extended time frame when it comes to our planning, to ensure the long-term sustainability of our companies and to prepare them for a future which will look very different from our present. In fact, now we collectively need to think about providing energy of all sorts, from all sources and for all kinds of end-use applications, basically for an indefinite period of time.

However, that *doesn't* mean we should turn away from the imperatives of fiscal discipline, operational excellence and reliability, or producing cleaner products, protecting the environment and providing a safe, secure and rewarding work environment, just so we can chase rainbows. In Maslow's hierarchy of needs, a person who pursues self-actualization still needs food and shelter. Similarly, just because we take on the third-generation challenge, it doesn't mean we should skimp on our day-to-day business activities. Nor am I advocating that we run our

companies as altruistic charities or philanthropic organizations: we are NOCs and IOCs, not NGOs, and to meet the various expectations stakeholders have, we must be efficient and profitable. However, I would argue that addressing sustainability in its largest, truest sense is very much in our self-interest as corporations—that there is a clear business case for such an approach if we wish to succeed over the long-term.

In my view, *true* energy sustainability should be treated as an all-encompassing concept including a wide range of energy, economic, social, technological, and of course environmental priorities. To that end, I see three key imperatives:

- First, creating a practically workable, optimum future energy mix, which also leverages the indigenous resource endowments of nations while addressing the issue of energy poverty in the developing world;
- Second, concurrently securing the *adequacy and affordability* of energy supplies to meet the rising demands of a growing world population, while maintaining industry profitability; and
- Third, ensuring the acceptability of energy to our communities, by striking the right balance among natural resources, food, water, economic growth and—last but not least— due consideration of environmental protection for our living planet.

By the same token, societies—especially in the developing world—are increasingly convinced that in return for benefiting from their natural resources, both NOCs and IOCs should accept unique responsibilities, particularly when they possess such vast capabilities.

Now, oil companies are called upon to go beyond simply supplying energy or paying taxes and royalties to promoting local manufacturing, maximizing local content, helping build national capacity, assisting in industrialization and economic diversification, and spurring meaningful job creation. These expectations also include helping to raise local education standards, knowledge-sharing and the dissemination of specialized industrial and business expertise, as well as helping to drive scientific research and applied technology development. There are no more easy rides, and no more free lunches to be had—neither for NOCs nor IOCs.

Unfortunately, we can see all too clearly the negative blowback that occurs in societies when these broader considerations are ignored for too long—not only in parts of the Middle East but also in other corners of the globe where the tangible benefits from petroleum have not kept pace with popular expectations.

Let me be clear: I strongly believe that as an industry, our ways of doing business have continued to improve and have benefited the countries and communities where we do business. Many of the policies and processes which have made the petroleum industry so successful can and should be retained. But we should also have the courage to acknowledge that our ways of business have not always kept pace with time, and that we should revisit our concept and philosophy of true sustainability.

In practice, though, what does that mean? Let us begin to answer that question with a look at future energy trends in terms of supply and demand.

Energy consumption in general, and of petroleum in particular, will continue to grow as a result of both demographics and economics. Demand for petroleum will

taper off in OECD countries over the next quarter-century, but incremental consumption growth in emerging markets and developing economies will more than compensate for those declines, heralding a fundamental redrawing of the global demand map.

However, while overall energy demand growth is assured, the supply side of the equation is anything but certain. And while fossil fuels will continue to account for an overwhelming share of energy supplies for many decades to come, there is tremendous speculation about the exact nature of the future energy mix and the outlook for shifting source allocations. How rapid will the rise of alternative energy sources actually be? What role will the market play in dictating the pace of those developments, and to what extent will politicians and policymakers “pick winners” through the carrot and stick of subsidies and punitive taxes? How will we strike a balance between the twin imperatives of economic growth and development on the one hand, and environmental stewardship on the other? The answers to those questions will affect all of us—national oil companies and international petroleum firms alike.

I would like now to take up the topic of the changing roles of these two categories of firms, NOCs and IOCs.

Certainly both have a central role to play in meeting the world’s future energy demand. But the optimal roles of various NOCs and IOCs still need to be thoroughly thought through, based on their aspirations, competitive positions, various capacities and available opportunities—as well as a better understanding of a future energy world certain to comprise conventional and unconventional oil and natural gas, clean coal, renewables and alternative sources of energy.

If we are to succeed in that endeavor, though, we need to leave behind outdated modes of thinking and models of cooperation, including broad characterizations that no longer shed much light on reality. For example, the terms “NOC” and “IOC” are useful in describing a firm’s shareholder profile—but otherwise the companies in each of those categories vary widely. Traditionally, IOCs have been viewed as talent-rich, technologically advanced and business savvy, while NOCs have been thought of as talent-poor but resource-rich, focused mostly on monetizing natural resources, and being rather unsophisticated in terms of business practices and commercial capabilities. Reality has shifted, though, and today an increasing number of NOCs can match the multinationals in terms of their international reach as well as the strength of both their technology *and* talent. In addition, specialized service companies are also playing at the leading edge when it comes to new technology, particularly in the upstream.

Of course, the technological, financial and management strengths of NOCs themselves fall along a broad spectrum, they have sometimes radically different business models and operating philosophies, and they conduct their operations on very different scales and in diverse segments of the industry. Some focus resolutely on their home markets, others have interests and operations which span the globe, and some prefer joint ventures in certain segments of their business. Some have robust technical capabilities and develop and operate projects on their own, while others prefer to engage in high-level management of business, assigning engineering and operations responsibilities to third parties. And we should remember that NOCs encompass both producers and consumers. In other words, it is impossible to talk about a “typical” NOC.

However, there are two dynamics that affect *every* NOC. First, the company must have a clear mandate from its shareholder—in other words, there should be a clear delineation of what that company should do itself, and what it should leave to other entities. Second is the need to align its strategic objectives, core operations and internal capabilities with the needs and expectations of its stakeholders.

In my view, innovative collaboration models are essential in fulfilling any NOC's assigned mandate and meeting the sustainability challenges I mentioned a few minutes ago. I am a strong believer in partnering as a key business strategy and think NOCs of all stripes are best served by extending the hand of cooperation to appropriate partners—whether IOCs, other NOCs, specialized engineering and service companies, research institutes, technology developers, or combinations of these firms. Such partners should complement an NOC's strengths and expertise, bring additional resources and market access, share risk and help to deliver maximum returns to both its shareholders and the wider communities it serves, keeping in mind that such returns should go beyond bottom-line financials.

By the same token, IOCs with open minds, fresh attitudes and flexible and futuristic approaches to cooperation will be more successful in working with their NOC counterparts than more conventional firms—whatever specific shape their collaborative efforts may take. The need for such a new approach is driven in part by the fact that petroleum producing countries are by and large past the stage where their economic and development needs could be met simply through production sharing agreements or royalties and taxes.

As I argued earlier, activities like local economic development, the creation of new employment and professional opportunities, and strengthening local communities

are no longer “nice-to-dos,” but instead have become “must-haves” for successful and sustainable petroleum enterprises, regardless of their ownership structure or corporate governance model. Such activities are part and parcel of many NOCs’ mandates as stewards and producers of their nations’ precious mineral wealth, but many of the same expectations are increasingly being applied to IOCs and other foreign investors. In my view, this is what constructive, long-term business relationships will look like in the coming decades.

Let me turn now to specific venues for NOC-IOC cooperation and collaboration.

In addition to the traditional upstream and downstream joint venture, I see many fruitful opportunities for partnership, including human resource development and cross-training; collaborative approaches to pressing environmental issues; and joint research and technology projects, including in potentially substantial areas like the development of tight and shale gas resources.

When it comes to core business activities, there are tremendous complementarities among NOCs and IOCs in various areas all along the petroleum value chain. Saudi Aramco is a strong believer in capitalizing on such mutually beneficial collaborative opportunities, and we are proud of our partnerships with both multinational firms and fellow NOCs; in the Kingdom and abroad; and in sectors ranging from natural gas to refining, marketing, retailing and petrochemicals. In fact, as we speak we are busy developing new joint ventures or expanding existing investments with NOCs like Sinopec and CNPC, PetroVietnam and Pertamina, as well as multinationals like Total, Dow, Sumitomo Chemical and Shell.

Finally today, allow me to refer to our experiences at Saudi Aramco to illustrate these emerging sustainability imperatives in action. We have long been focused on trying to leverage everything we do to promote the development of the Saudi economy and society, because such contributions are an integral part of our corporate mission. Not only is the company the source of most of the Kingdom's national revenue, but it is also the sole supplier of petroleum fuels and feedstocks to domestic industries—including petrochemicals, which constitute about 10 percent of our nation's GDP—as well as to utilities, to businesses, and to individual consumers.

In keeping with our obligations to the nation, we focus in the upstream on careful, prudent stewardship of the Kingdom's hydrocarbon resources—a commitment which not only shapes our operational philosophy but also drives technological innovation in exploration and producing. Our long-term ethos is, frankly, a key differentiating factor for Saudi Aramco where we emphasize the long-term management of our reservoirs alongside economic optimization. We view our oil fields as strategic assets to be managed for many decades to come as part of a wider petroleum portfolio, and as a precious national endowment for future generations.

By the same token, the continuing transformation of our downstream portfolio is anchored on adding value to Saudi Arabia's hydrocarbon resources and driving the creation of new jobs—not just in our company, its affiliates or service providers, but also in the conversion, manufacturing and service clusters centered on our integrated refining and chemical facilities. The petrochemical materials we intend to produce have been selected for both their stand-alone economics and their potential to enable new industries in the Kingdom. Each objective in our

downstream strategy is designed to contribute to the nation's prosperity in ways that are tangible, valuable and sustainable, and we are tremendously excited about the enormous potential for growth in this segment of our business.

In addition, we are investing in new R&D initiatives involving both upstream and downstream technologies, on our own and in conjunction with universities and other research institutions in the Kingdom and abroad. Building on our strong legacy of community involvement and corporate citizenship, we are also committed to helping create a knowledge-based economy in the country, to pooling our expertise and experience with that of other organizations, and to strengthening the capabilities of local firms engaged in energy activities and process industries in general.

Of course, these activities are possible only because for many years we have invested in developing our human resources for the long term. Every year we enroll thousands of Saudi Arabia's brightest into our own vocational programs and sponsor many of them for university studies at home and abroad. We have a strong professional development program which emphasizes mentoring and on-the-job experience, in addition to a strong culture of self-development among our work force. Visitors to the company often tell us they are first struck by the size and scale of our facilities, but leave talking about the sophistication of our technology and above all the quality of our people.

In short, we recognize that the impact of our work and our responsibilities to our stakeholders do not stop at the gates of our refineries, gas plants and petrochemical complexes or the perimeters of our producing fields. Rather, we believe that Saudi Aramco has an obligation to contribute to the Kingdom and its people in many

ways both direct and direct, and that serving as a catalyst for the development and further diversification of the domestic economy is an inseparable aspect of our mandate as an organization. At the same time, our social and economic contributions do not come at the expense of our focus on efficiency and the profitability of our business, but rather these factors complement one other and are all essential for long-term business survival and sustainability. In my view, *this* is the future model that most countries—especially developing nations—aspire to see not only from their own national oil companies but from *all* of their investors, both local and foreign.

In conclusion, I am of the strong belief that we need to approach the future with more open minds, to better define our future trajectories as individual companies, and to develop more fruitful models of cooperation which create more powerful synergies in our interactions. Above all, we need to consider the hopes, aspirations and expectations of our stakeholders—not as peripheral concerns but as central elements in our business strategies, and to address the sustainability challenge of the social and economic development of our communities alongside business profitability and environmental protection. There are many variables and unknowns ahead, and there will be both welcome and unwelcome surprises that lie in wait. But one thing *is* certain: the oil business of the future will not be like that of the past, any more than the expectations of the societies we serve will resemble the needs and desires of previous generations.

Thank you for your attention this morning.