Middle Eastern NOCs are on a modernisation drive

A Saudi Arabian NGL plant. (Saudi Aramco)

Verity Ratcliffe / London

Major state players in the Middle East are trying to loosen up and move with the times, but will old habits die hard?

SOME OF THE Middle East's biggest NOCs have adjusted their strategies to list their shares, attract foreign investment and engage in more meaningful partnerships with IOCs. But can the region's state oil giants – which have a reputation for rigidity and scepticism towards foreign ownership – really ease up and move with the times?

Saudi Arabia has forbidden IOCs from developing its oil since the sector was renationalised in the 1970s. It offered gas development opportunities to IOCs in the 1990s, but talks collapsed after Saudi Aramco and the international companies failed to agree terms. The Rub' al-Khali area was later offered for exploration, but IOCs failed to find commercial deposits and complained domestic gas prices could not support development. However, there are signs Aramco wants to change. Saudi officials have met the heads of some of the world's biggest IOCs to discuss joint gas ventures in the kingdom.

Abu Dhabi has allowed IOCs to take stakes in production projects, but these are limited to certain types of development. Abu Dhabi National Oil Co. (ADNOC) has indicated it wants more flexible partnerships with IOCs and is inviting investors to areas of the value chain previously closed to the private sector. Its aim is to free up capital it could then use in other projects.

"This is what every modern organisation does – actively managing their portfolio, unlock capital, invest, drive growth," an ADNOC executive told *Interfax Natural Gas Daily*. "This is just part of our ongoing transformation."

But Abu Dhabi still wants to retain control of its core operations. "They are seeking to develop more flexibility at the periphery of the Emirati energy sector, while leaving the core business state-directed," Justin Dargin, a Middle East energy expert at the University of Oxford, told *Interfax Natural Gas Daily*. Even so, the issue of gas production prices could stymie progress in Abu Dhabi as it has in Saudi Arabia.

Several national oil majors are considering following Saudi Arabia's lead, which has seen Aramco making its first foray into trading its shares on stock exchanges. Aramco has decided to list close to 5% of its shares, a move that has turned heads as it could be the world's biggest listing and means the company will have to open its books – which could also lead to the modernisation of the business.

ADNOC's approach is more tentative. It plans to list shares in several of its subsidiaries rather than the parent company. However, this hints at ADNOC's desire to adopt the behaviours of the IOCs. It is also reportedly in the market for a $5 billion loan to help it expand. Meanwhile, Oman Oil Co. is seeking advice from banks regarding selling some assets and listing on the local stock market.

But while NOCs are no doubt serious about their desire to modernise their businesses, doing so will mean easing their grip on oil and gas operations and having to accept demands for more transparency in their finances. These have been sticking points in the past and could still hold back progress now. ■

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