

Mr. Al Falih Speech

Unlocking Human Potential: Saudi Aramco's Accelerated Transformation Program
Saudi Aramco Management Development Seminar Participants Dinner Andrew W. Mellon
Auditorium

Washington, DC, May 19, 2011 -- Your Excellencies, distinguished guests, ladies and gentlemen – good evening. It is a great pleasure to join you tonight at this dinner in recognition of the men and women of the Saudi Aramco Management Development Seminar Class of 2011. We are privileged to have each of you with us this evening.

This annual event is always a kind of homecoming for us, since this management program has been held here in DC for more than three decades. That's only fitting, given the opportunities this city provides for participants to gain a better understanding of the complex economic and political factors that shape the formulation of international business strategy.

But your nation's capital also hosts our company's top-tier leadership development course because of the longstanding ties of friendship and cooperation that Saudi Aramco has in this great country, and indeed those between the United States and Saudi Arabia.

Certainly the anchor for these numerous linkages is the mutually beneficial interdependence of the world's leading consumer of energy and the world's largest petroleum exporter. That relationship is itself multifaceted, and is nurtured and deepened not only through our affiliate offices in Washington, Houston and New York, but also through our major refining and marketing joint venture with Shell in the southeastern United States, which is currently doubling its facility in Port Arthur, Texas, to be this nation's largest refinery.

In addition to substantial American investment in the Kingdom's energy sector, we also look to hundreds of American companies—both large and small—for products and services to support our company's operations.

And of course there are the dozens of US universities where our company-sponsored students study, mastering an academic discipline while also learning for themselves about this great country, its people and its dynamic society.

Some of these relationships with American firms and institutions are nearly as old as the modern Kingdom itself, but the human connections are perhaps the most enduring and tell the most compelling story.

That story continues to unfold today through the Americans and Saudis who work side by side in our US operations, the hundreds of American citizens employed by Saudi Aramco in the Kingdom, and their family members who call our communities home. Our shared legacy also encompasses the formative experiences of tens of thousands of Saudi men and women who have earned degrees from US universities in years past—including this proud Texas A&M Aggie.

Again, that's a continuing saga, as today there are nearly 45,000 Saudi students enrolled in US

universities, studying in all 50 states—including nearly a thousand whose studies are being sponsored by Saudi Aramco.

Without a doubt, our generation of Saudis and Americans are heirs to a long, rich history. Beginning in the 1930s, at the direction of King Abdulaziz Al Saud, Saudis partnered with Americans to build the oil enterprise that would underpin a new nation and help to power the global economy—and in fact, the plentiful, affordable energy supplies they provided to the world played a major role in fueling the unprecedented post-war economic boom and the wave of prosperity and growth that followed.

They were extraordinary individuals whose contributions to the Kingdom and the wider global community of energy are still being felt today.

Of the many Americans who have contributed to our success as an energy provider, one stands out: first-generation Aramco pioneer Max Steineke. A senior geologist with the Standard Oil Company of California—predecessor to today's Chevron—Steineke joined SOCAL's oil exploration campaign in Saudi Arabia in 1934.

The Pulitzer Prize-winning historian Wallace Stegner described Steineke as, quote, “burly, big-jawed, hearty, enthusiastic, profane, indefatigable, careless of irrelevant details and implacable in tracking down a line of scientific inquiry,” unquote. Stegner may have been describing Max Steineke, but I think he also captured a wider, uniquely American type found nowhere else.

Steineke's resilience and optimism saw him through almost five years of frustration, as a number of wells were drilled and failed to deliver.

SOCAL had in fact issued the call to give up on Saudi Arabia when Steineke's order to “drill a little deeper” paid off in 1938, and Dammam Number 7—named the “Prosperity Well” by King Abdullah—yielded the Kingdom's first crude in commercial quantities.

Number 7 ultimately produced 32 million barrels of oil before it was shut in nearly 30 years ago—though the well remains capable of producing even today, and the Dammam Field as a whole still accounts for half-a billion barrels of our proven reserves.

Perseverance was a quality Americans such as Max Steineke shared with Saudis like Khamis ibn Rimthan, a Bedouin guide who worked alongside the US geologists. In fact, just as Steineke is a sort of American archetype, Khamis is a Saudi right out of legend: lean and spare, with eyes like a falcon and an uncanny sense of direction that led his American contemporaries to swear he had swallowed a compass.

It is a measure of the high regard in which he was held by Americans and Saudis alike that the only Saudi oil field named for a person is called Rimthan—while the fact that our primary guest housing facility in Dhahran is “Steineke Hall” underscores the respect and affection still accorded to its namesake. In fact, this year we agreed with Stanford University, his alma mater, to endow a chair of geology in Max Steineke's name.

That generation of Saudis and Americans not only found and produced oil; they also built many of the Kingdom's first roads, numerous schools and farms, the railway and the electricity company, and the country's first television station.

Before corporate social responsibility had a name, they were unlocking the Kingdom's rich natural resources not only to provide energy to consumers and achieve profitability for the company, but also to build a national infrastructure and provide wider opportunities for a better life among the people of the Kingdom.

It's the can-do spirit of the American frontier coupled with the perseverance and resourcefulness of the Bedouin, and it has proven to be a very powerful combination indeed.

Their achievements can only be described as transformative, and today Saudi Aramco manages by far the world's largest conventional crude oil reserves, is the number one petroleum exporter, and a major producer of natural gas. The company is already a significant player in the global refining sector, and we will be increasing our worldwide refining capacity by half, meaning more than two million barrels per day over the next several years.

We are also moving into chemicals in a big way, and pursuing an exciting slate of research and development initiatives both on our own and in partnership with companies and universities throughout the Kingdom and around the world.

The company also plays an indispensable role in fostering global energy security and petroleum market stability through both the reliability of its operations and its investment in significant spare production capacity.

That "power to provide" has been tapped a number of times over the years in order to make up for production disruptions from other major suppliers, and is a cornerstone of the Kingdom's farsighted energy policy.

Knowing that such significant spare capacity is there—and that it has been brought on stream seamlessly and in a timely fashion when conditions warranted—helps to reassure international markets, and in turn has promoted oil market stability and allowed the continued global economic recovery to take firmer hold.

But just as importantly, previous generations of Aramcons—Saudis, Americans, and scores of other nationalities—also created a corporate culture which continually embraces opportunities for positive change: a tradition of transformation, if you will.

Now it's true that in the past, the company's progress was most often measured in tangible ways, through the sheer scope of our facilities and the scale of our production—though the development of human resources and talent has always been a top priority.

But today the most significant changes are often intangible, shaping our corporate culture, influencing how we approach business and enhancing our core activities. Now, innovation,

R&D, and the creation and utilization of new knowledge drive our corporate culture.

So in recognition of our longstanding friendship with the United States and in honor of the American pioneers who helped provide the firm foundation upon which today's Saudi Aramco has been built, I would like to share—for the first time with an external audience—Saudi Aramco's Accelerated Transformation Program: our new initiative to unlock the company's full human potential.

We call it “accelerated” because in some ways, these initiatives are more intensive applications of changes which we have already initiated. That is why our new program is perhaps best appreciated as a catalyst to increase the pace and potential which these changes offer. And at Saudi Aramco, the potential of the enterprise—and particularly of its employees—is almost unlimited in my view.

Our Accelerated Transformation Program is all about unlocking that potential and getting the most out of the company and its capabilities, which is why there is so much excitement around these initiatives.

Perhaps the most visible results of our transformation to outsiders will be the changing nature of our business portfolio and our expanded operational profile, as we broaden our scope from that of an oil and gas company to a fully integrated global energy enterprise.

In the upstream exploration and production arena, we will continue to exercise industry leadership in scale, operational reliability and technology development, but extend our activities to frontier areas within the Kingdom, including the deep waters of the Red Sea, and develop new nonconventional gas resources, including tight gas and shale gas.

Downstream, as I mentioned earlier we are pressing ahead with a massive expansion of our global refining capacity, and continuing with refining and chemicals integration and expansion at facilities here in the US, Korea and China.

In the Kingdom, we are proceeding with Phase Two of our Petro Rabigh joint venture with Sumitomo Chemical, a grassroots facility with Total in Jubail, and the world's largest chemicals initiative with Dow, also in Jubail, as well as building two grass roots refineries in Jizan and Yanbu' on the Red Sea coast.

These new downstream activities not only significantly expand our existing capacity, but also add value, spur meaningful job creation, and employ integration to allow our assets to work to their full potential.

Furthermore, these plant expansions, complex upgrades and new facilities rely on brainpower as well as Btus for their success, and lie at the nexus of knowledge and energy. As such, they will help to nurture the development of a knowledge-based economy in the Kingdom—yet another important pillar of our Accelerated Transformation Program.

Embracing innovation is even more important when you consider that new knowledge is also at

the heart of a number of Saudi Aramco initiatives focusing on renewables, in particular harnessing the power of the sun—something we get a lot of in Saudi Arabia!

Make no mistake: the world will continue to rely on plentiful and affordable supplies of petroleum for many decades to come—and in fact, a quarter-century from now, oil will still account for the largest portion of the global energy supply mix.

But complacency is not the Saudi Aramco way, and so we are working diligently today on renewables, nonconventional resources, and environmentally beneficial technologies. I think of these diversification efforts as “hydrocarbons-plus,” and we are collaborating with leading institutions worldwide to realize the enormous possibilities which they offer.

But as I noted earlier, many of the most significant changes in our Accelerated Transformation Program are intangible, and have more to do with people than plants or pipelines.

The business landscape in which we all operate is changing: patterns of energy consumption are shifting as living standards in the developing world rise, and new economic powers are playing increasingly important roles on the global stage. Advanced technology continues to alter our ways of running the business—and even our understanding of the world and our relationships with one another. Furthermore, the need for wise stewardship of the environment and the call for substantive contributions to local communities have never been so acute.

Such challenges and opportunities are not met simply through production capacity increases or the development of another set of megaprojects; rather, they require a set of fundamental changes in the way we do business, in the expectations we have from our people, and in the expectations they in turn have from our company. They are met through grappling with so-called “soft issues”—which often turn out to be the hardest issues of all!

One significant factor which both helps to drive the transformation and provides us with a tremendous opportunity for meaningful change is the demographics of our workforce. Saudi Arabia has a large youth population, and at Saudi Aramco, we have a significant number of employees who will be retiring during the next decade.

As a result, in five years’ time, nearly 40 percent of our workforce will be under the age of 30. These “Generation Y” employees have never known life without computers, are immersed in instant communications and social media, thrive on multitasking, and have been so influenced by technology and globalization that their work styles, lifestyles, values and expectations differ markedly from those of previous generations.

Our Accelerated Transformation Program must therefore prepare them for Saudi Aramco by instilling in them our timeless values, our work ethic and attention to operational excellence, as well as pride in our company’s heritage of success and achievement.

But even more importantly, we must proactively prepare Saudi Aramco for these young people by rethinking the way the company engages with them as well as the stimuli it provides to its

people.

Some of our front-line supervisors tell me our new employees are impatient and restless, and difficult to direct or control—something people say about Generation Y the world over. I tell them I see these young people as active, ambitious, capable and eager to make a difference—in addition to being more knowledgeable about the world than I certainly was at their age. In any case, we must provide the kind of stimulating work environment, professional challenges, mentoring, true empowerment, and meaningful opportunities to make a difference that this new generation not only deserves, but which it will demand.

Our new business and demographic profile also has implications for our management culture, and the criteria we set for leaders throughout the company.

First of all, we recognize that not every leader occupies a management position, and that thought leaders and on-the-job influencers have a critical role to play in Saudi Aramco’s soft-side transformation.

We will also be moving from the traditional “command and control” model found in much of the oil industry—and which frankly served the company well for many decades—to a more diffuse, shared leadership style. As a result, decision making and accountability are pushed lower, in turn creating greater agility and flexibility while best leveraging the full intellectual capacity of the organization.

We are also establishing a Young Leaders Advisory Board—or “Y-LAB” for short—to advise senior leadership on our transformation journey, and to incorporate the ideas and insights of the new generation of employees I mentioned earlier.

My friends, three-quarters of a century ago Max Steineke, Khamis ibn Rimthan, and the other early pioneers unlocked the Kingdom’s vast hydrocarbon resources.

Subsequent generations of employees unlocked the benefits of industrialization, and of organization- and infrastructure-building—and in so doing provided billions of barrels of petroleum to the Kingdom and the world, helping to fuel the global economy and prosperity for many decades.

Today, we continue to be a company that thrives on tackling tough problems, that actively seeks out challenges, and looks to create meaningful opportunities to benefit the corporation and the consumers and communities it serves.

Looking ahead, the future of the energy industry—and indeed, the global business environment—will be marked by greater complexity: something we welcome, because that complexity will be coupled with significant new opportunities which hold tremendous potential and promise.

And with our transformation program, we want to be far ahead of that curve of change, and

positioned to make the most of these new realities and fresh possibilities.

That is why ten years from now, when the world looks at Saudi Aramco it will see a global energy company that still has that power to provide, but which is also better, faster and smarter, and even more capable of making a lasting difference in the Kingdom and beyond.

And just as the vision, conviction and hard work of the early American and Saudi pioneers were finally rewarded with the gusher that was Well Number 7, I am quite confident in our ability to tap many new “gushers” of talent and innovation in this latest transformation for the company, largely because of the quality and caliber of our people, including the men and women seated among you this evening.

My friends, the challenges and opportunities ahead are many, they are massive, and they are multifaceted—but frankly, that’s just the way we like them at Saudi Aramco.

Thank you again for joining us tonight, and please enjoy your dinner and your evening.