

Mr. Al-Falih Speech

Saudi Aramco and Korea: Mutual Benefits, Shared Opportunities and Enduring Relationships
The Korea Chamber of Commerce & Industry

SEOUL, April 26, 2011 -- *Anyoung hashim nika, Yoro bon bankaps hamnida.* Distinguished guests, ladies and gentlemen, good morning. I would like to thank Chairman Sohn for his gracious invitation and warm hospitality, and to express my appreciation to each of you for your attendance this morning.

Ladies and gentlemen, today I will be discussing Korea's current and future energy mix, the significant role Saudi Aramco plays in meeting this nation's demand for energy, and the ways in which the drivers of Korea's Green Growth strategy for economic development are aligned with my company's view of sustainability.

I will also explore the degree to which Saudi Aramco relies on Korean firms for outstanding services and high-quality goods, and outline the many opportunities that Korean companies will find in Saudi Arabia in coming years.

I will close by sharing my thoughts on the future trajectory of those relationships, and the prospects of further enhancing the already strong ties which draw us together—for the benefit of both our societies.

Allow me to begin, however, by sounding a note of admiration for the accomplishments of this great nation and its people over the last half century. What the world has come to know as "The Miracle on the Han River" is truly nothing short of incredible and awe-inspiring.

I believe every nation can learn from the Korean experience when it comes to how you achieved industrial development and infrastructure building; technology, innovation and high quality education; value addition through knowledge; and managing both economic and social change while maintaining pride in your rich heritage and traditions.

As both Korea and Saudi Arabia have witnessed rapid economic and social development over the last fifty years, and are now both members of the G20 group of leading economies, "The Land of the Morning Calm" has a particular relevance for us in the Kingdom.

The ways in which this country has demonstrated its resilience during times of economic distress are also admirable, as Korea always seems to emerge from periods of difficulty stronger than before, and with even greater competitiveness in the global marketplace. The manner in which Korea weathered the recent global economic crisis adds to the admiration Saudis hold for this nation.

But our respect is not limited to the amazing GDP growth numbers and the technological breakthroughs coming from Korean companies and research institutes. There is also an incredible degree of respect for Koreans among Saudis at a human level, because for more than a generation we have seen first-hand your work ethic, your fortitude, your ingenuity, and the way

in which Koreans meet their responsibilities and honor their commitments.

Saudis have also come to appreciate the quality and ingenuity of Korean products, and it is rare to find a Saudi home without a Korean television set or air conditioner, Korean-made mobile phones or laptops, and often a Hyundai, KIA, Daewoo or SsangYong car or SUV in the driveway. In fact, this country is now among Saudi Arabia's four largest trading partners.

In addition, many Saudis follow Korean athletes and entertainers on the world stage, and are rooting for PyeongChang's bid to host the 2018 Winter Olympics. However, the one place where Koreans have been anything but friendly to us is on the football pitch, as the Red Devils knocked Saudi Arabia out in the qualifying stages for last year's World Cup!

I believe there is a similar affinity for Saudi Arabia and Saudis here—and in fact I have met Korean gentlemen of a certain age who, once they know where I am from, delight in telling me about their experiences in the Kingdom as young men, helping to construct vital infrastructure.

Many of those Korean-built installations—from petroleum plants and industrial complexes to transportation networks and power grids—are still there, standing strong: a testament to both the quality of workmanship and the commitment of the Korean workers.

By the same token, at Saudi Aramco we are proud to have contributed to Korea's phenomenal growth and development through our reliable supply of petroleum, and through our equity stake in the S-Oil Corporation, one of this country's leading energy enterprises. This year marks the twentieth anniversary of that milestone investment—Saudi Aramco's first in Asia.

In the subsequent two decades, we and our partners have experienced both exhilarating heights and sometimes discouraging lows, but we have always remained faithful to the company, its employees, and the consumers and communities which it serves.

In fact, S-Oil is now expanding the capacity of its world-class refinery in Ulsan to more than 650,000 barrels per day, making it one of the world's biggest and most sophisticated refineries.

In addition to fuels meeting the most stringent international specifications, the facility also produces a range of highly valuable petrochemicals which help to feed many of Korea's most important industrial enterprises, and its massive new Number Two Aromatics Complex—which began trial runs this month—will make S-Oil one of the largest producers of paraxylene in the entire Asian region.

I would also like to note that this week, Saudi Aramco's Board of Directors is meeting for the first time in Korea—though our Executive Committee has met here before. That's not just because S-Oil and Korea are an important part of our proud past, but rather because this market is very much a cornerstone of our company's future.

Today, the Far East is the destination for two out of every three barrels of crude oil that Saudi Aramco exports; companies from Korea and other Asian nations are important suppliers of top quality goods, materials and services to our operations; and we are seeing increasing volumes of

foreign direct investment from Asia into the Kingdom.

In fact, our strategic analysis of our future business growth takes special note of the continually growing industrial might of northern Asia, encompassing such economic powerhouses as Korea, China and Japan.

Therefore, it is clear to us at Saudi Aramco that we will continue to play a fundamental role in satisfying Korea's future energy needs. Energy is the lifeblood of developed nations and the foundation of our modern way of life, and advanced economies like Korea depend on a plentiful and reliable supply of energy to remain vibrant and vigorous. Today, this country draws on fossil fuels to meet about 82 percent of its energy needs, and roughly half of the fossil fuel total comes in the form of petroleum: some 2.2 million barrels per day.

As Korea's largest supplier of oil, Saudi Aramco provides nearly a third of that total, and thus accounts for a sizable proportion of the country's overall supply of energy—helping to fuel continued economic growth and enabling the high living standards which Koreans enjoy.

Consider for a moment that Saudi Arabia meets some ten percent of the world's crude oil needs—but more than three times that percentage when it comes to this nation's oil demand. By the same token, Korea accounts for roughly one-and-a-half percent of global GDP, yet it receives something like 10 percent of our total petroleum exports. To me, those numbers indicate a high degree of affinity and a rock-solid energy relationship between Korea and the Kingdom.

That will continue to be the case for many years to come, as renewables are projected to grow from less than two percent of Korea's primary energy consumption today to around 11 percent by 2030 under the most aggressive assumptions.

It is, of course, a similar story elsewhere around the world, where the role of renewables will certainly grow but will do so gradually, given the small base from which these supplies are starting and the various economic, environmental, infrastructure and consumer acceptance hurdles which they face.

At the same time, most of the growth in renewables will come in power generation, meaning Korea's transportation and industrial sectors will rely primarily on petroleum for decades to come—and Saudi Aramco will continue to be here to meet those future needs, just as it has for decades past.

Furthermore, the Kingdom's commitment to maintaining a sizable cushion of spare crude oil production capacity— at least one-and-a-half million barrels per day, and which has reached up to four million bpd over the last couple of years —is an important stabilizing factor for the oil markets, and by extension for the global economy as a whole.

Given recent events in some oil producing countries, this additional capacity has been critical in reassuring consumers of available supplies of oil—and as Saudi Arabia's Minister of Petroleum & Mineral Resources, His Excellency Ali Al-Naimi, has made clear, the Kingdom will continue

to act in support of oil market stability and as a force for moderation.

Of course, issues of supply are only part of the energy equation. Recently, I have spoken at length about the need for balancing the energy triangle of adequacy, affordability and acceptability of energy, and the need for petroleum companies to simultaneously meet all three of these imperatives in order to be truly successful. I believe these same drivers underpin much of Korea's Green Growth strategy, championed by President Lee, and I look forward during my time in Seoul to learning more about the degree to which these visions are aligned and complement one another.

However, like President Lee, we believe that there are unbreakable connections and close interrelationships between energy, economic growth, environmental stewardship and social prosperity. Likewise, we too argue that enhancing energy efficiency and promoting the rational use of renewable forms of energy have an important role to play in making wiser and better use of the various energy resources which mankind has at its disposal.

In fact, the Kingdom itself is also developing renewables—in particular solar, which given Saudi Arabia's plentiful sunshine, wide open spaces, and abundance of white sand which can be used to produce the silica utilized in solar panels, is an extremely promising area of development.

Ladies and gentlemen, although I have thus far focused primarily on the ways in which Saudi Aramco supports Korea's growth through its supply of energy, our relationship with this country is very much a two-way street.

I say that because Korean companies are among the most significant suppliers of material and equipment to our oil, gas, refining and petrochemical projects in the Kingdom, as well as providers of engineering, procurement and construction services and solutions. So just as Korea depends to a large extent on Saudi oil, Saudi Aramco relies upon Korean companies for mission-critical goods, services and technologies.

At present, there are 89 Korean companies registered with Saudi Aramco, and over the last five years, 39 contracts valued at 11.5 billion dollars have been awarded to Korean firms. During the same period, we have purchased nearly 500 million dollars of goods and materials from Korean suppliers.

In addition, over the past decade or so Korean shipyards have built 14 Very Large Crude Carriers and five product tankers for Saudi Aramco's wholly-owned shipping subsidiary, Vela International Marine, Limited, valued at roughly two billion dollars.

Saudi Aramco is also working with KAIST, the Seoul National University, and the King Fahd University of Petroleum & Minerals to develop joint research initiatives, and for many years we have sent some of our brightest young people to Korean universities to study. Here, they not only master a technical or engineering discipline, but also learn first-hand about Korea, its language and distinctive culture, its dynamic economy and society—and above all, they come to know the Korean people.

If anything, though, the future prospects for Korean companies and institutions engaged with Saudi Arabia and Saudi Aramco look even brighter. Over the next five years, the Kingdom will spend in excess of 450 billion dollars on capital projects, while Saudi Aramco will be spending a total capital budget of roughly 125 billion dollars on our domestic and international projects over the same period.

That of course covers upstream activities including new crude oil production facilities, but Saudi Aramco isn't just about petroleum production. We are also one of the world's largest producers of natural gas, a major player in refining, and we are quickly ramping up our petrochemical activities. Allow me to elaborate.

To give you some indication of the scale of our refining portfolio, Saudi Aramco currently owns or participates in joint ventures which together account for an impressive four million barrels-per-day of refining capacity, in the Kingdom and abroad. But this will soon grow even further, and will surpass six million barrels per day, representing a 50 percent increase in our global refining capacity.

That growth will be accomplished through two new refineries already in progress in the Kingdom, and four more grassroots refineries currently being considered, including one at Jaizan in Saudi Arabia and joint-venture refinery projects being looked at in China, Vietnam and Indonesia. Furthermore, we will also grow, expand and upgrade our existing refining centers.

Similarly, some thirty years ago Aramco built the world's largest natural gas network of its kind—the Master Gas System—and since then the company has roughly doubled its throughput capacity. The system will continue to expand, exceeding 15 billion standard-cubic-foot-per-day of capacity in the next five years, when the network will encompass seven world-scale gas plants.

In support of that expansion, we continue to make new natural gas discoveries in places like the Arabian Gulf, while beginning exploration in frontier areas such as the Red Sea and the northwest region of the Kingdom. These activities are adding to our reserves of 275 trillion standard cubic feet—the world's fifth largest proven reserves of gas, in addition to the world's largest reserves of conventional crude oil.

We are also strengthening and expanding our petrochemical capabilities in the Kingdom, through a world-class petrochemical project in Jubail with Dow Chemical and a planned expansion of our PetroRabigh joint venture with Sumitomo Chemical. Together, these projects are set to almost double our chemicals manufacturing capacity.

In addition, these integrated refining and petrochemical facilities will form the hubs of new industrial clusters housing other companies engaged in conversion, manufacturing and service activities.

Beyond these megaprojects, a large number of support and infrastructure initiatives—including pipelines, bulk plants, system upgrades, environmental projects and large buildings—are planned

for the coming years as we continue to expand and enhance our business and facilities portfolio.

In all these cases, we require sophisticated technology, well-honed engineering and project management expertise, and proven procurement and construction capabilities. We will also need high-tech solutions and high-quality goods and materials to complete these endeavors.

In recent years, Saudi firms have increased both their capabilities and capacities, and are able to take on a greater proportion of work on our projects. But there is still ample room for leading international companies with unique abilities and expertise—especially those which seek to collaborate and partner with local Saudi enterprises.

Therefore, Saudi Aramco's capital program holds tremendous potential for Korean companies which can meet our standards and deliver on our expectations, and I personally believe that means Korean firms of various sizes and specialties have a growing opportunity to do business with us.

The ties between Saudi Aramco and Korea's business sector—as well as with its academic and research institutions—are already solid, but with the wide range of commercial and collaborative opportunities on offer, they can grow even stronger and more varied.

However, I also believe that these cooperative bonds need to evolve with changing times and conditions in order to thrive and deepen.

Therefore, I would like to see Korean companies adopt a forward-looking strategy in which they invest in the ability to service and maintain materials and equipment in Saudi Arabia, rather than simply supporting us and the Middle East region from over the horizon here in Korea.

Maximizing the amount of local content utilized in our projects and ongoing operations is an important strategy for Saudi Aramco, and is part of our mission as the Kingdom's national petroleum enterprise.

Thus we believe that strategic and focused foreign direct investment in the Kingdom's industrial capabilities offers win-win opportunities for both Saudi Arabia and the international companies that share our long-term view of business success and sustainability.

In fact, Korea's continuing transition from heavy industry to cutting-edge technology and knowledge-based exports, centered on intellectual property and leveraging the growing strength of Korean brands, means there is an opportunity to move some traditional manufacturing activities offshore.

This mirrors the earlier experience of the United States and Japan, and as Korea continues to climb that same path toward even greater sophistication in its product offerings, the economic benefits of offshoring grow more apparent.

At the same time, the Kingdom is working hard to develop many of the same kinds of industries and manufacturing capabilities that Korea may be exiting as it continues its economic

transformation.

For aspiring investors, the list of attractive inputs available is broad: from plentiful energy supplies, access to electricity and water utilities, and abundant supplies of chemicals and minerals, to ample land, an attractive tax and business environment, and the Kingdom's central geographic location between the large markets of Asia and Europe, offering savings on transportation and other logistical costs. Then there is the growing, well-educated youth population, with more and more new entrants into the labor market each year.

This extensive list of favorable factors can make Saudi Arabia a superb location for many Korean companies looking to expand their overseas profiles.

I liken this in many ways to Saudi Aramco's own experience with Korea. Just as this nation provided us with an ideal launching pad from which to grow our presence in north Asia, I believe the Kingdom can also be an excellent springboard for Korean firms wanting to grow their presence in the fast-growing Middle East region, and beyond.

In fact, we are already seeing such far-sighted initiatives in the energy services sector with the completion this year of Samsung Saudi Arabia's Naffora Techno Valley in Jubail, which is a major center for the Kingdom's industrial and petrochemical sectors. The project includes research and engineering facilities, as well as education and training components designed to transfer high technology and project management skills.

Similarly, LG Electronics has partnered with a leading private sector Saudi firm to build an air conditioner manufacturing plant south of Riyadh which produces more than 500,000 units per year—with plans to nearly double that capacity by year-end.

I hope that other leading Korean companies will follow this new paradigm in making strategic investments in Saudi Arabia—and in the Kingdom's continued economic and industrial development—both for their benefit and for ours.

My friends, three decades ago Korean institutions and individuals alike played a major role in constructing the Kingdom of Saudi Arabia's basic infrastructure, including many of its major hydrocarbon facilities. Twenty years ago, Saudi Aramco became involved in helping to build what is perhaps Asia's greatest petroleum industry success story during the last half of the 20th century: the emergence of S-Oil as one of the sector's most profitable companies.

Then, over the last ten years, Saudi Aramco opened new doors for Korea's world-leading engineering, procurement and construction companies to work with us on an extensive slate of megaprojects and massive shipbuilding orders—and Korean companies responded by winning an incredible proportion of the contracts on offer.

This state of affairs continues to the present with ongoing oil and gas megaprojects in Jubail, Yanbu', Karan and Wasit, and we are pleased and proud to be working with many of this country's leading industrial enterprises. We also continue to purchase a sizable volume of goods and materials from Korea's manufacturing sector, and are exploring additional opportunities for

research and development collaboration with this country's universities and technology sector.

Now, though, we can take these relationships to an even higher level with strategic Korean investments in various areas of the Saudi Arabian economy, including energy-related fields.

To me, such a development is simply the natural and necessary extension of a bilateral relationship which has already brought tremendous rewards to our companies, and greater prosperity to both our peoples.

Ladies and gentlemen, I understand there is a well-known Korean saying: *Shijaki banida*, or "starting is half of the task." Previous generations of Koreans and Saudis have indeed given us a strong foundation upon which to build, and to continue our mission of seizing shared opportunities, realizing greater mutual benefits, and further strengthening the relationships which bind our companies and our two countries so closely together.

As the Korean proverb goes "*Gong zon Gong young*," we look forward to working with many of you and your companies to realize that potential and promise, just as our joint efforts to date have helped to shape our nations and indeed the global economic landscape as a whole.

Thank you for your attention this morning, and *kamsa hamnida*.