

Saudi Arabia Plans To Take Aramco Public

The rapid decline in crude oil prices has resulted in numerous bankruptcies and an estimated decrease of \$60 billion in capital expenditures nationwide this year.

The decline has been felt even in the in the oil rich palaces of Saudi Arabia; the kingdom announced on April 25 that it plans to list up to 5 percent of its state-owned oil company, Aramco, on stock exchanges around the world. The news shocked many long-time observers, because Aramco is owned by the government of Saudi Arabia. It has operated Aramco in secrecy since the company was formed. If they take Aramco public, those secrets will become globally available.

The prince acknowledged that the days of secrecy will be history. Any public offering would require detailed information about oil reserves, finances, and even the relationship of Aramco to the royal family. It would completely change the character of Aramco.

So, why change, and why now?

The answer is money. Saudi Arabia has been spending more than it has taken in because of the decline in oil prices. It is estimated that the offering probably would offset the deficit in 2015.

Deputy Crown Prince Mohammed bin Salman said that Aramco is worth between \$2 trillion and \$3 trillion, and the 5 percent listing could result in \$100 billion to \$150 billion.

Is this a sale of desperation? If the sale would have taken place two years ago, the price would have been two or maybe even three times higher, because oil prices then were \$100 per barrel instead of \$40 now.

How will banks, other financial institutions and investors react?

After all, Aramco once was Arabian American Oil Company. Saudi Arabia nationalized the company and ran off its U.S. participants. What is the possibility of that happening again to its investors?

Meanwhile, crude oil prices for May delivery on the NYMEX ended at \$45.33 per barrel on April 27, a new high for 2016 as the dollar weakened following the Federal Reserve's announcement that it would leave interest rates unchanged.

Declines in the value of the dollar make oil more affordable to holders of other currencies.

Oil prices have increased about \$20 per barrel, or 75 percent, since January.