

For the past several months two of the world's leading stock exchanges – the New York Stock Exchange (NYSE) and the London Stock Exchange (LSE) - have been competing over the listing of Saudi Aramco, Saudi Arabia's national oil company, in what would be the largest IPO in history.

Delegations from both exchanges have traveled to Riyadh to woo government officials to select them. The LSE has even offered to bend its listing rules to accommodate the Saudi intention to float only five percent of Aramco as according to current rules a company qualifies for premium listing only if it offers at least 25 percent of its shares. Both President Donald Trump and British Prime Minister Theresa May recently visited Riyadh to bolster the relations with the Saudis in part to influence their decision on the matter.

But for the Saudis the choice between New York and London is not an easy one. Prince Mohammad Bin Salman, who was recently installed as the Kingdom's crown prince and who is considered the mastermind of the IPO, prefers an NYSE listing which would solidify US-Saudi relations even beyond the recent \$350 billion arms deal between the two countries. Aramco executives on the other hand prefer London as there, they believe, the company would be more protected from shareholders lawsuits over not only the conduct of the company but also that of the Saudi government. To date no decision has been made.

No one can blame the owners of those exchanges for their eagerness. The same is true for the underwriters of the IPO like Goldman Sachs and JP Morgan or the various consultancies and law firms benefiting from lucrative retainers and consulting fees associated with the offering. With an estimated valuation of \$2 trillion the five percent Aramco will be offering the public are valued at \$100 billion - more than the combined value of the top five largest IPOs ever floated in New York City. With such a bonanza every crumb is a mountain of cash. But from the broader public's perspective things look vastly different. The Aramco IPO is a test of the integrity of our financial system and under the current structure no democratic government which believes in free and open markets should expose its investors to such an offering.

From the first time the idea of an IPO was announced it was fraught with serious questions. Taking public a company like Aramco would entail disclosures the company was never willing to make. For example, it would have to share with investors its detailed geological data, its well by well production costs, its precise financial relations with the Saudi government and its hiring and operating procedures. All of those have been closely guarded state secrets. But transparency and the equal availability of information to every investor are the bedrock of our financial market. This requires Aramco to remove the veil of secrecy from its books, and it is not clear that the Saudi government, which effectively runs Aramco, is genuinely ready to do so.

An even more troubling set of questions has to do with what can be called the five-versus-95-percent problem. While the Saudis sell five percent of Aramco to the public they keep the other 95 percent under tight government control. How will this work exactly? Which assets or business segments will fall within the five percent? What will be their interaction with the rest of the company? Will shareholders of the five percent be accountable to decisions made by the 95

## Keep OPEC out of Wall Street

Written by Gal Luft

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percent? Who decides? The issue is particularly relevant since while the five percent will supposedly be governed by free market forces, the 95 percent will be effectively controlled by a price fixing cartel, OPEC – the complete antithesis of the free market. OPEC members collectively own more than two thirds of the world's conventional crude reserves and they account for one third of global production. Over the past forty years non-OPEC production has doubled yet the cartel's production has barely changed and is around 32 million barrels per day. It can manipulate oil prices at will in ways no other player in the oil market can.

Saudi Arabia is not only the largest producer within OPEC, it is OPEC. Time and again it has been demonstrated that Saudi Arabia is the driving force behind the cartel's decisions, including the most recent one to extend oil production cuts in order to support prices. The other thirteen members are merely supporting actors. Since oil export is the main source of income for the Saudi government, OPEC's decisions will always be subservient to the Kingdom's budgetary needs. Once floated in New York, Aramco stock will be present in every portfolio of every pension fund, mutual fund and premium stock index. This means that one way or another most Americans will be invested in it and by extension most Americans will be forced to be in collusion with a cartel and at times benefit from its price fixing.

The association with OPEC will put in legal jeopardy any oil executive wishing to hold fiduciary responsibility in Aramco. Under US law, officers of companies engaged in price fixing go to jail, but executives of OPEC members are doing so in broad daylight every few months in Vienna. However, bringing Aramco under American or British securities law will change the rules for those executives and expose them – and possibly also the exchange that hosts the stock - to numerous lawsuits. This will deter western executives from assuming positions in Aramco, leading the company to be governed by a cabal of Saudi royals enjoying diplomatic immunity rather than seasoned oil professionals.

One of the most important roles of government in the economy is the elimination of cartels. Allowing the Aramco IPO while Saudi Arabia remains at the helm of OPEC would bring the most objectionable form of market distortion into the heart of our financial system. It is therefore necessary that both the US and British governments take a firm and unified stand and face Saudi Arabia with the stark choice: leave OPEC or stay out of our financial markets.

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