Saudi Arabia's Shock Cut in Planned Oil Expansion

by Simon Henderson **(/experts/simon-henderson)**

Feb 5, 2024
Also available in
العربية (/ar/policy-analysis/alswdyt-tqls-bshkl-sadm-khttha-lltws-fy-taqt-antaj-alnft)

ABOUT THE AUTHORS

Simon Henderson (/experts/simon-henderson)

Simon Henderson is the Baker Senior Fellow and director of the Bernstein Program on Gulf and Energy Policy at The Washington Institute, specializing in energy matters and the conservative Arab states of the Persian Gulf.

Brief Analysis

The decision could lead to further spending reductions in the kingdom.

Riyadh's January 30 announcement that it had canceled its plan to increase maximum sustainable production capacity from 12 to 13 million barrels per day (bpd) by 2027 caught analysts by surprise. The kingdom's current output of about 9 million bpd makes such a decision explicable, but it was nevertheless unexpected. The *Financial Times* called the move "a major policy reversal **(https://www.ft.com/content/136f89a8-f8d2-427e-a633-377104c837ea)** ." Reuters labeled it a "U-turn **(https://www.reuters.com/business/energy/saudi-aramco-says-it-will-cut-planned-maximum-capacity-12-mln-bpd-2024-01-30/)** ." The *MEES* energy newsletter described it as "a bombshell announcement **(https://www.mees.com/country/saudi-arabia)** ."

Unnamed "industry sources," quoted by Reuters, said that the decision was "at least six months in the making" and claimed that it had "no bearing on the view of long-term demand." The sources indicated that "the decision came from the top," suggesting it was taken by the kingdom's de facto leader, Crown Prince Muhammad bin Salman, widely known as MbS.

In essence, the cutback means that the kingdom has revised its view of medium-term demand growth, based on a slow world economy, particularly in China. Oil fields need constant investment to maintain levels of production, and new fields have to be developed to replace the decline in existing deposits. Billions of dollars will still be spent, but the total expenditure will be significantly lower.

In the longer term, Saudi Arabia will retain the advantage of producing lower-cost oil than much of the rest of the world, but future total demand will be affected by the availability of other lower-carbon fuels like natural gas, or nonhydrocarbon producers of electricity like wind, solar, and nuclear sources. With supply by OPEC+, the oil-producing cartel led by Saudi Arabia and Russia, now falling below half of total world demand—in part because of significantly increased U.S. production—Riyadh's historical role as "the central bank of oil" is being lost.

For the week ending February 2, oil prices fell by about 5 percent, with the main internationally traded Brent crude dipping to just over $77 per barrel. Although such short-term price movements are not reliable indicators of longer-term trends, the fall suggests more specifically for the kingdom that other budgets may be squeezed. MbS's major Vision 2030 plan for economic transformation relies on oil revenues and foreign investment. As yet, foreign investment has been slower than foreign interest in his projects, of which the futuristic city of NEOM is notably ambitious. The prospect of slowing down development of such projects appears likely to many outside commentators. And despite the long-term ambition to move away from dependence on oil revenues, the kingdom's reliance on such income has—if anything—increased.

On January 31, the analytical Lex column of the *Financial Times* led with "**Oil: The Days of $100 Prices Are Over (https://www.ft.com/content/57f1ad77-119f-42df-a1ff-3d57df70ba80)** ." The text read: "Oil will be part of our lives for decades to come. But its value to the consumer has already topped out." It went on: "Futures markets hint at little concern about supply since the latest Middle East tension began in October." The column identified the no longer rapidly growing Chinese economy as crucial to forecasts, pointing out the country's evolution. It particularly noted an analysis that predicted half all new car sales in the country will be electric by 2025.

For the United States, low oil prices may win votes domestically, but they have a negative impact on Gulf allies like Saudi Arabia and the United Arab Emirates, whose diplomatic support could well be crucial to resolving the future of Gaza, as well as containing continuing tensions with Iran.

Simon Henderson is the Baker Fellow and director of the Bernstein Program on Gulf and Energy Policy at The Washington Institute. ❖

RECOMMENDED

BRIEF ANALYSIS

Energy Watchdog Predicts Big Oil Surplus by 2030

Jun 14, 2024

◆

Simon Henderson

(/policy-analysis/energy-watchdog-predicts-big-oil-surplus-2030)

BRIEF ANALYSIS

How Hamas Is Trying to Shape the "Day After" in Gaza

Jun 13, 2024

◆

Ehud Yaari

(/policy-analysis/how-hamas-trying-shape-day-after-gaza)

IN-DEPTH REPORTS

Avoiding the Election Error in Tunisia:

Why U.S. Policy Should Focus on Real Reform, Not Votes

Jun 13, 2024

◆

Sabina Henneberg,
Sarah Yerkes

(/policy-analysis/avoiding-election-error-tunisia-why-us-policy-should-focus-real-reform-not-votes)

TOPICS

Energy & Economics (/policy-analysis/energy-economics)

Gulf & Energy Policy (/policy-analysis/gulf-energy-policy)

REGIONS & COUNTRIES

Gulf States (/policy-analysis/gulf-states)