

Saudi Arabia Signals Oil Policy Shift

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ABOUT THE AUTHORS



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Brief Analysis

The kingdom anticipates and accepts lower oil prices, according to a news report, but the impact on other producers could be comparatively damaging.

On September 26, an exclusive in the *Financial Times* indicated that Saudi Arabia is ready to abandon its unofficial oil price target of \$100 per barrel, which the IMF calculates is needed to fund Crown Prince Muhammad bin Salman's ambitious Vision 2030 mega-projects. The news was sourced to "people familiar with the country's thinking," journalistic code for key decisionmakers who want to remain anonymous—but who likely include Energy Minister Prince Abdulaziz bin Salman, the older half-brother of MbS, as the kingdom's de facto leader is known. Saudi Arabia's Energy Ministry did not respond to a request for comment, a stance that would appear to confirm the authority and sourcing of the report.

An Extra Million BPD by End of 2025

The revised plan, according to the unnamed sources, is for the kingdom to increase incrementally its monthly production from December, adding a total of 1 million barrels per day (bpd) by December 2025. Even as this will weaken prices, the impact on Saudi Arabia may be limited, with the report making clear that the kingdom has other funding options for its infrastructure plans—namely, its foreign exchange reserves and the issuance of sovereign debt. But many other oil-producing countries lack these options.

The policy shift appears to acknowledge the growing weakness of oil prices. In 2022, the widely traded Brent crude averaged \$99, but Saudi production cutbacks of 2 million bpd in the last two years have failed to maintain high prices. Early this month, Brent was trading below \$70 per barrel, and today it was up only slightly from that figure.

As the leading producer in the OPEC oil cartel, and the joint leader with Russia of the larger OPEC+ grouping, Saudi Arabia typically manages production quotas that are at odds with price ambitions. Historically, this has sometimes been painful, but Riyadh's latest decision appears to be an attempt to smoothly introduce the change in market direction.

Less Revenue for Iran and Russia

The options for other oil-producing countries could be more challenging from a budgetary perspective. Iran is the most obvious example, given that its success in evading sanctions would bring in less revenue. The same applies to Russia, and therefore raises the possibility of a repeat of the [Russia-Saudi 2020 production war \(https://thehill.com/opinion/energy-environment/486761-russia-and-saudis-in-a-knife-fight-over-oil-but-we-may-be-the-victims/\)](https://thehill.com/opinion/energy-environment/486761-russia-and-saudis-in-a-knife-fight-over-oil-but-we-may-be-the-victims/).

Saudi Arabia appears to be hoping it can stop further decline, even though the Paris-based International Energy Agency predicts an 8 million bpd surplus capacity by 2028. For their part, U.S. oil producers will be hurt by lower prices even as production probably will not be affected, at least in the short term. Washington's principal concern is likely to avoid adverse international economic consequences, the anticipation of which depends on the direction of oil prices—and how fast they may fall—in the next few months.

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