

## EEMEA Oil &amp; Gas

## Expert call takeaways on Saudi oil capacity increase halt and Red Sea tensions

Industry Overview

**Decision to halt capacity increase not merely fiscal driven**

We hosted a call with Robin Mills, an expert on energy strategy and economics, to discuss the Saudi oil capacity increase halt and impact of the Red Sea tensions (see [link to the replay](#)). As highlighted (see our [note on Aramco from last week](#)), spare capacity of 3mb/d, higher non-OPEC supply and fiscal pressure likely contributed to the capacity increase halt. Other key takeaways from the call are: 1) Saudi will likely maintain the optionality to increase oil capacity to 13mb/d, 2) expansion projects like Jafurah (non-conventional) likely to continue, 3) downside risks to OPEC + bullish demand in 2024, 4) UAE unlikely to cancel capacity increase, 5) Red Sea tensions likely to prolong.

**Optionality to increase oil capacity to 13mb/d**

Mr. Mills reiterated that Saudi's decision will not impact projects that have passed final investment decision (Dammam, Berri, Marjan and Zuluf). Safaniya (start-up in 2027-28), with an estimated total capex >US\$25bn (based on Woodmac) and Manifa (not part of the MSC increase to 13mb/d) are likely to be deferred. He highlighted that developing projects that have passed FID as part of the MSC increase, provides Saudi the optionality to increase capacity to 13mb/d at a later stage. He noted potentially lower maintenance capex on existing fields thereby likely allowing higher natural decline rates.

**Non-conventional projects like Jafurah likely to continue**

Mr. Mills noted that non-conventional projects like Jafurah will likely go ahead given demand for natural gas liquids in petchems as feedstock. He also highlighted that lesser oil production from Saudi would mean lesser associated gas and hence the greater need for non-conventional gas production.

**Downside risks to OPEC + bullish demand in 2024**

OPEC + forecasts demand growth of 2.25mb/d in 2024, c.2x IEA and BofA commodity team forecasts. Mr. Mills believes that Saudi's capacity increase halt announcement does not support OPEC's bullish near-term view on demand and noted downside risks.

**UAE unlikely to cancel oil capacity increase**

UAE is expected to continue to increase its MSC to 5mb/d. Current MSC is c.4.2mb/d, while it is currently producing c.3.2mb/d. Mr. Mills believes that UAE and most other OPEC + members have lesser fiscal pressure, that helps support the capacity increase.

**Red Sea tensions likely to prolong**

Mr. Mills does not see any imminent de-escalation in the Red Sea tensions. He notes that westbound traffic has been more impacted than eastbound. He also does not think an escalation in the Strait of Hormuz is likely given the strategic importance of the route to ship product to China from the Middle East.

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MSC: Maximum sustainable capacity

FID: Final investment decision

mb/d: million barrels per day

IEA: International Energy Agency

OPEC: Organization of the Petroleum  
exporting countries

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