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Gulf Research Center

Digital Roundtable on

The Gulf Energy post COVID-19

organized by

Gulf Research Center

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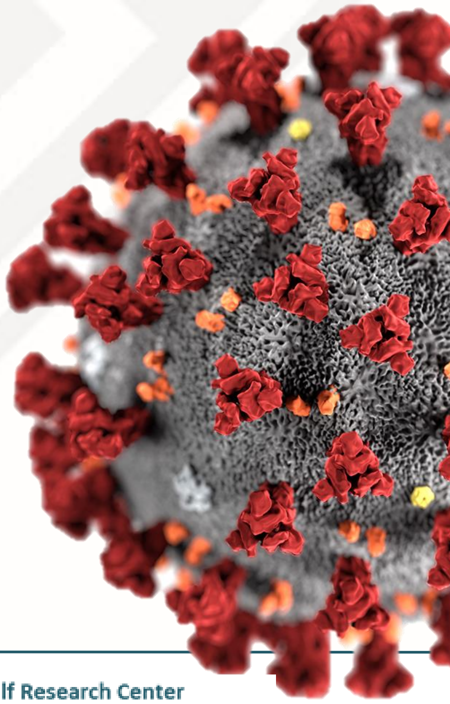

Summary of Discussions

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Part 1: The pandemic caused a sharp reduction of economic activity, and consequently also of GHG emissions. Do you expect that will lead to a relaxation of the priority attributed to curbing emissions and containing climate change?

The discussions focused on the effects of the pandemic on global economic activity and climate change due to GHG emissions. Participants emphasized the priority of containing climate change and long-term effects post COVID-19.

The following points were highlighted as factors in predicting post-pandemic outcomes:

- Ongoing arguments among states concerning the importance of green growth, which will likely continue and become increasingly significant.
- EU policy was mentioned as an example of an existing roadmap towards a recovery framework, underlying its investment in energy technologies as a key dimension of the recovery plan and promoting social justice and climate preservation to avoid rising populism.
- A clear reluctance towards climate change mitigation in various states, as lobbies will push harder against climate change technologies post COVID-19 due to the economic effects of the crisis. It was argued that it will be more difficult to take the necessary steps needed to push regional climate change strategies post COVID-19 as there will be an increase in measures focusing on securing millions of jobs that have been wiped out in addition to limiting regulatory burdens on affected corporations.
- The rapid change in human behavior will have a potential effect on consumer behavior post COVID-19. However, it was argued that during this period of uncertainty, it is difficult to study long-term projections and implications of consumer behavior.

Part 2: Will the recovery be V-shaped, U-shaped or L-shaped? Will some oil and gas demand be lost forever?

The second part of the discussion concentrated on the potential shape of the recovery and future oil and gas demand. Participants emphasized **a gradual and uneven recovery process across various regions**, arguing that due to the many uncertainties going forward, recovery shape at this point does not amount to more than speculation, and each country's policy in terms of lifting lockdowns will differ depending on its rationale. These factors will also impact the pace of the economic recovery across regions, and how economic landscapes will differ between pre and post COVID-19.

Discussions also focused on a better understanding of the current demand for oil and gas, and ongoing arguments suggesting that some oil and gas demand will be lost forever. Participants argued that the **future trajectory of demand will be lower than projections prior to the pandemic**, and the composition and level of demand will be affected. It was mentioned that a global peak in oil demand may have already occurred, and that Gulf oil exporters should accept the reality of severe cuts in oil demand and prices remaining below $50/barrel. In conclusion, it was argued that oil exporters should be exploring processes to diversify their economies as quickly as possible.

Part 3: How early may Brent front month climb above $50/b for a reasonably long time?

With regard to oil prices, the discussions indicated that prices could potentially recover, however how soon this will take place remains debatable, taking into account the following factors:

- The OPEC+ agreement, which will be implemented in May, provides positive signals to the market that oil producers are cooperating and that production will be kept under control.
- Oil producers should invest more in maintaining their level of oil production. The erosion of oil during this crisis could lead to major shortages of oil production in the future.
- During the month of April, the international community will face the highest Year-on-Year contraction of demand by 30 million barrels/day. Excess supply will remain large, however the accumulation of stocks will decelerate as lockdowns begin to lift.
- Currently, the biggest issue oil producers are facing is the lack of storage space for excess oil, and this will generate pressure on the shape of the curve. Prices could ultimately turn negative as there will be a surplus of commodities with no storage facilities.
- In terms of the contractions expected in the month of May, the imbalances will begin to mitigate, however this will not be enough to

relieve the pressure on storage for accommodating excess productions of oil.

The high level of uncertainty will continue to affect the forecast of recovery plans following the crisis, in particular concerning oil demand. The level of uncertainty is high as there is lack of an overall framework or statistical model to forecast the growth of GDP and oil demand. Oil supply will decline due to the OPEC+ agreement but the demand recovery may be slower than expected. The extent to which oil in storage can further increase is also uncertain, and some participants expressed the opinion that lack of storage will soon force producers to shut down wells, even if it might be difficult or expensive to reopen them later on. In the US shale sector specifically, there may be a wave of bankruptcies, opening the door to acquisition of assets at low prices and subsequently reducing cost of production. However, some participants argued the possibility that by the end of the year 2020 the excess supply could be reabsorbed and prices could return to above $50/barrel territory in early 2021.

Part 4: Should the Gulf oil producers (and Russia?) move to drive expensive oil out of the market for good? Is this a meaningfully attainable objective?

The final part of discussions looked at ways that Russian oil producers are suffering from severe oil competition. Although since 2015 there have been disputes within the Russian oil industry among proponents of production discipline and those favoring maximizing production even at the cost of lower prices, today the situation is so dire that all stakeholders are united in a battle for survival. Production cuts are inevitable and the ruble will be allowed to devalue further, which will further reduce production cost.

The following conclusions were drawn:

- For the Arab Gulf producers, there are limits to the extent that they can attempt to drive US shale oil out of the market, although other high-cost oil sources will certainly be affected.
- All major oil and gas producers will need to reassess their strategies and strategically devote more attention to protect the value of their product in a decarbonizing world.
- The collapse in oil prices will not reduce the priority attributed to climate goals and may facilitate the introduction of higher carbon emission prices to prevent a rebound in emissions.

Saudi Arabia and other major oil and gas exporters must reduce the emissions connected to oil and gas production, decarbonize their own economies and transform oil and gas into clean energy products that the rest of the world will be willing to use for decades.