

# Price war, climate change and COVID-19: Shift of power in the global energy industry and resource curse

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Even before the price war in March, 2019 it was evident that the oil and gas industry faced a new energy order. First, the “shale revolution” in North America has created a more flexible source of oil and gas, undermining the Organization of the Petroleum Exporting Countries (OPEC) and their ability to manage production. In 2014-15, Saudi Arabia tried to damage the shale industry in the United States (US) by increasing production and driving down the oil price. But this strategy ultimately failed as the shale industry reduced its costs and was able to recover and secure the finance needed to expand production. In September 2016, Russia and Saudi Arabia reached the so-called OPEC+ agreement, involving 24 oil-producing countries, to manage oil production to support the price of oil. This worked briefly, but it also incentivized the US shale industry to increase production. Output surged, reaching record levels in early 2020. The emergence of the US as a major exporter of liquefied natural gas (LNG) has had an equally destabilizing impact on global gas markets. Second, following the Paris Agreement in 2015, there has been an increased determination to address climate change and accelerate the de-carbonization of the global energy system, alongside a desire to reduce urban air pollution. This has been aided by the rapid fall in the cost of renewable power generation and a growing acceptance of the need to reduce fossil fuel consumption sooner rather than later. In this context, the COVID-19 pandemic and resulting unprecedented fall in oil and gas demand preview an inevitable, more definitive shift that presents an existential threat to so-called “Producer Economies”.

In the oil industry, there are forecasts of a gradual reduction in the global demand. This, however, is seen to take place alongside a tightening of global supply, especially as the most readily accessible reserves are exhausted. Growth in China and India is viewed as likely to see demand for certain sub-types of oil rise. As a result, a “new price growth cycle” is envisaged. Robust global growth in demand for gas is also forecast, largely due to the need for countries to shift away from coal-based power generation to reduce carbon emissions. But coal consumption, it is suggested, will not disappear; instead, it will remain the primary source of energy in the “developing countries” of the Asia-Pacific and Africa. Any significant switch, if any at all, toward renewables is only likely to take place in high-income OECD countries. By contrast, the consumption of large volumes of coal, alongside growth in demand for oil, is seen as likely to continue in the Asia-Pacific region and to grow in Africa. Russia, it is stated, should aim to exploit these sources of demand growth.

It is not yet the rightest time to decipher the unravelling of the effects of COVID-19 pandemic. But a cohort analysis, taking Russia as a case may be worthwhile to consider. Oil and gas revenues for the federal budget were planned at about R7.5trn, equivalent to 6.6% of GDP and to 113.7 USDbn at the projected exchange rate. The break-even oil price for the 2020 budget was 42.45 USD p/b. As the oil price and the rouble fell, analysts and policymakers struggled to keep up. On March 12 Audit Chamber head Aleksey Kudrin was quoted as saying that if the average oil price in 2020 was 35 USD/b and the rouble averaged 72 to the dollar, the loss of oil and gas revenue to the budget would be R3trn. There would be a federal-budget deficit of 2% of GDP and the economy would flatten). Six days later the Brent oil price fell to just under 25 USD/b. By mid-April, 2020 a group of liberal Russian economists put forward three scenarios for 2020.

Optimistic: average Urals oil price 40 USD/b, GDP change “3.7%

Moderate: average Urals oil price 31 USD/b, GDP change “5.7%

Pessimistic: average Urals oil price 24 USD/b. GDP change “7.9%

In each scenario the fall in GDP was steeper for Russia than for the world as a whole.

*Jayanta Bhattacharya*