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## Highlights

- Upcoming Events
- Crude Oil Spot Price (WTI and Brent)
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## Fresh Start of APERC and Renewal of OGSN Newsletter

Message from the President of APERC

**Dr Kazutomo IRIE** is the President of Asia Pacific Energy Research Centre (APERC) since 8 June 2018.

On April 1st of 2020, the Asia Pacific Energy Research Centre (APERC) started afresh as an independent organisation.

APERC was born in 1996 as a regional research institute to support energy policy cooperation under the framework of Asia Pacific Economic Cooperation (APEC). Legally, it was established as an affiliated body of the Institute of Energy Economics, Japan (IEEJ), an existing research institute. It was difficult to acquire the legal status of independence under the Japanese laws at that time.

In recent years, the rules for establishing nonprofit organisations have been changed in Japan. It has become easier for those organisations to obtain independent legal status. In addition, various internal conditions enabled and urged APERC to pursue its legal independence.

On the other hand, it is a challenge for APERC to operate independently. IEEJ is one of the leading thinktanks in the world in the

energy field and has excellent researchers on energy economics and energy policy. APERC had been supported and assisted by the researchers of IEEJ Headquarters and its other affiliated bodies. Sometimes their researchers worked for APERC on a part time basis.

The OGSN Newsletter was no exception. IEEJ researchers on oil issues, gas issues and geopolitics, including Middle East issues, contributed articles to the Newsletter based upon their expertise. However, it is no longer appropriate to heavily depend upon them for APERC as an independent research institute. Beginning with this April issue, the Newsletter will be written mainly by APERC researchers. Though the number of articles in each issue may diminish, we will maintain and try to improve the quality of each issue.

The fresh start of APERC and renewal of the Newsletter is greeted by the grave human crisis of COVID-19. However, mankind has to overcome this crisis. Pray for People and Peace. We will win!

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## How a Month-Long Price War and A Global Virus Collapsed Oil Prices

by Diego RIVERA RIVOTA



### Corona Virus (COVID-19)

Coronavirus disease (COVID-19) is an infectious disease caused by a newly discovered coronavirus. After its outbreak in December 2019, COVID-19 was eventually declared pandemic by the World Health Organization (WHO) on 11 March 2020 that resulted to “Great Lockdown” (IMF, 2020), perceived to be unparalleled since the Great Depression of the 1930s.

(Photo by Live Science, MSN News)



On March 9, 2020, the world awoke with the news that oil prices had collapsed. A barrel of Brent crude, the European reference price, was quoted at \$34, while the American reference price, the West Texas Intermediate (WTI), touched \$31 per barrel. This was simply the largest drop in the price of oil in one day since January 1991, when the First Gulf War began. As a reference, the average price of Brent during 2019 was \$64 per barrel. But what triggered this drop in price? In an overly simplified way, the massive drain on oil demand as consequence of the simultaneous Coronavirus pandemic and an oil price war between Saudi Arabia and Russia, the world’s two largest oil exporters.

The story of this oil price war has its roots in 2016. In that year, the Organization of Petroleum Exporting Countries (OPEC) and 10 other producing countries (including Russia, Malaysia and Mexico) undertook a joint strategy to cut oil production with the aim of stabilizing oil prices and expanding their market shares. This alliance of 23 countries, also known

as OPEC+, was a direct reaction to rapidly growing US tight oil production, which had more than doubled since 2009 and had absorbed most of global oil demand growth. OPEC+ has two very clear de facto leaders, Saudi Arabia within OPEC and Russia within the other 10 members, both with much higher production and export volumes than other OPEC+ allies.

By February 2020, the Brent price fell to \$50 per barrel, owing to lower than expected demand, caused mainly by the economic consequences of COVID-19. As the number of people infected increased and restrictive measures were adopted, the demand for refined products dropped dramatically. In addition, stagnant industries reduced their demand for petrochemicals, affecting a huge range of end products from plastics to fertilizers. Soon, it became clear that the coronavirus was spreading to the rest of the world, producing an unprecedented cost in human lives and a huge economic impact. Meanwhile, oil prices kept falling and OPEC+ met on March 6 aiming to reduce the fall in oil prices.

In response, Saudi Arabia proposed cutting production by 1.5 million barrels per day (mb/d), compared with the 0.5 mb/d agreed in December 2019. Of this cut, OPEC would account for

1 mb/d, leaving Russia and the other nine partners the remaining 0.5 mb/d. After much speculation and tense negotiations, Russia not only rejected the OPEC proposal, but also prevented an agreement within OPEC+ to continue with any production cuts. On that day, oil prices fell by about 10%, with WTI and Brent to \$41 and \$45 per barrel.

If that was the start of hostilities in this price war, the Saudi response was tantamount to attacking with heavy artillery. State-owned oil company Saudi Aramco announced on March 8, a production increase from 9.7 mb/d to about 11 mb/d, in addition to reducing its different regional selling prices by between 6 and 8 dollars per barrel. Having one of the lowest production costs in the world, the Saudi tactic was to increase production, further dropping oil prices. The next day, oil prices fell by \$10, oil company shares fell by up to 25%, virtually all financial exchanges suffered losses and the currencies of oil-producing countries depreciated.

The Russian-Saudi war began as the pandemic expanded globally, claiming lives and creating economic chaos in its wake. The Saudi strategy was to reduce prices to the point where economic losses and budgetary pressure were **(next page)**

## How a Month-Long.....

strong enough to make the Russian government return to the negotiating table. On March 31, Brent dropped to \$22 per barrel, something not seen since May 2003, as economic activity became almost paralysed and storage facilities were approaching capacity. With no apparent public signs of capitulation from Moscow or Riyadh, pressure to end the prices war kept rising on their public budgets and from a variety of external sources including the International Energy Agency, some OPEC countries and, particularly, from the United States. Eventually Russia and Saudi Arabia ceded to pressure and called a truce on the price war, agreeing to have an OPEC+ emergency (virtual) meeting on April 9. While that meeting forged an initial agreement to the end this month-long price war, its development deserves an analysis on its own, which is discussed in the next article on this page .

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*“...the pandemic expanded globally, claiming lives and creating economic chaos in its wake.”*

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## The OPEC+ Historical Agreement, Enough to Balance Oil Markets?

by Diego RIVERA RIVOTA



After enduring a month-long shock on crude prices coming from both the Saudi-Russian oil price war and the continuously worsening effects of the COVID-19 pandemic in the global economy, Riyadh and Moscow agreed to call a truce in the first week of April. With Brent oil prices hitting \$22 per barrel at the end of March, it became evident that the largest oil exporters underestimated the effects of the pandemic. With global oil demand set to fall by almost 30% in April compared with last year, the 23 OPEC+ members got back to the negotiation table on April 9 via videoconference, the new normal in COVID-19 times.

Both OPEC+ de facto leaders, Saudi Arabia and Russia, seemed to have reached an agreement on cutting production globally by 10 million barrels per day (mb/d). It would later become clear that behind the scenes, Russia, Saudi Arabia and the United States governments had negotiated a production cut in a bid to raise oil prices. While historically the United States has opposed OPEC in favour of lower oil prices, this time it pushed, instead, for the opposite, higher oil prices. This policy shift from the Trump administration aimed to protect the US oil and gas industry, particularly shale producers, battered by prices below \$30 per barrel.

The proposal meant an overall OPEC+ production cut of 10 mb/d. Using October 2019 as a base-

line, this meant a reduction of about 23% per country, with Russia and Saudi Arabia cutting 2.53 mb/d each. While Brunei-Darussalam, Kazakhstan and Mexico initially opposed the proposal, hours of negotiations convinced the former two economies, leaving Mexico as the lone, surprising hold-out, rejecting its respective cut of 400 thousand barrels per day (kb/d). In the April 9 declaration, OPEC+ clarified that the proposed cut remained conditional upon the acceptance of this economy. Why would Mexico, the 11th-largest oil exporter, oppose an effort to curb falling prices? Simply put, cutting production is at odds with a cornerstone of its nationalistic political program that envisions growing oil volumes as a ‘leverage of development.’ While most Mexican oil fields are not economical at prices below \$35 per barrel, President Andres Manuel Lopez Obrador remains steadfast that the resources and effort committed to stabilising production levels preclude its participation in a broader strategy to stabilise oil markets.

The next day, at an extraordinary G-20 Energy Ministerial meeting, representatives called for an agreement to stabilize oil markets. Amid mounting pressure, Mr. Lopez Obrador declared that he had arrived at an agreement with the US President, Donald Trump, in which Mexico would only cut 100 kb/d and the US, the remaining 300 kb/d. After long hours of intense high-level diplomacy in different capitals, OPEC+ officially an-

nounced on April 12 an overall cut of 9.7 mb/d, basically accepting the Mexican proposal. This is the largest coordinated oil production cut ever agreed, both in terms of oil volume and parties involved.

This landmark OPEC+ agreement put an end to this Saudi-Russian oil price war, but will it be enough to balance the over-supplied oil markets? At the time of writing of this text, the answer is: in the short term, definitely not. Only a week after the agreement announcement, oil futures prices in the US fell into negative territory at \$-40 per barrel for the first time. This reflects a glut in supply and the continued demand collapse as a consequence of having at least 3 billion people under some kind of lockdown around the world, due to the COVID-19 pandemic. While the International Energy Agency (IEA) expects global oil demand to return to the pre-pandemic 90 mb/d level by August, several analysts find this figure optimistic. The reality is grim, highly uncertain, and with the key answers in the hand of epidemiologists, rather than energy analysts. As long as the pandemic is not controlled, economic activity will not resume to anything resembling normal levels. Only when a sustained recovery takes place with increased transportation and industrial activity, will oil markets find some stability.

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*“...the reality is grim, highly uncertain...”*

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# Interview with the Expert



## The Expert

### MARK FINLEY

*Fellow in Energy and Global Oil*

*Mark Finley is the Fellow in Energy and Global Oil at Rice University's Baker Institute. He has 35 years of experience working at the intersections of energy, economics and public policy.*

*Before joining the Baker Institute, Finley was the senior U.S. economist at BP. For 12 years, he led the production of the BP Statistical Review of World Energy, the world's longest-running compilation of objective global energy data. He also was responsible for the company's long- and short-term oil market analysis, and he led the global oil market and transportation sector analyses for the long-term BP Energy Outlook.*

*Prior to joining BP, Finley was an analyst and manager at the U.S. Central Intelligence Agency. He was responsible for assessing the implications for U.S. strategic interests of developments in global oil and other energy markets, as well as analysing the policies of key oil-producing and -consuming countries. He was recognized*

*for exceptional analytic performance many times, including for oil market analysis during 1990-91 Gulf War. Finley also edited a daily intelligence summary for Cabinet-level U.S. economic policymakers as well as the president's daily brief, and regularly briefed these summaries and other analysis to senior U.S. officials.*

*Finley is a senior fellow of the U.S. Association for Energy Economics, and has been recognized for his lifetime contributions to the profession of energy economics. He has held leadership roles in the International Association for Energy Economics, the National Association for Business Economics, and the Conference of Business Economics. He is a member of the Council on Foreign Relations, and he sits on the external advisory board of the University of Michigan Energy Institute. Finley is a Phi Beta Kappa graduate of the University of Michigan and holds graduate degrees from Northwestern University (in economics) and the George Washington University (in finance).*

### RECENT RESEARCH AND PUBLICATIONS

- 04/12/2020 - Free-market competition is one of the greatest strengths of the U.S. oil industry

- 04/12/2020 - The Best and Worst of Times Each Require Competitive Resolve for the Oil and Gas Industry
- 04/05/2020 - Price War and Pandemic: The Oil Market Reaction
- 04/02/2020 - Support an oil and gas industry in trouble by believing in competition
- 03/30/2020 - U.S.-Saudi Oil Alliance Inadvisable
- 03/09/2020 - A user's guide for the oil price war
- 02/27/2020 - Climate change, the energy sector and financial risk
- 01/09/2020 - Could Iran reprisals bring back \$100 oil?
- 12/12/2019 - The Bigger Picture Behind Aramco IPO
- 11/25/2019 - Energy Security and the Energy Transition: A Classic Framework for a New Challenge
- 10/29/2019 - The US Response to Saudi Oil Attacks
- 09/17/2019 - Attacks on Saudi Oil Facilities Cast a Huge Shadow of Uncertainty on the Oil Market

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# Interview with the Expert

## The Interview

**APERC—You have more than 35 years of experience in the en-**

**ergy sector, and more than a decade of those years were in developing short and long-term analysis of the global oil market. Can you discuss briefly what are the common drivers that affect the future oil supply?**

**Mr Finley—**The factors that will affect future oil supply will be a combination of geology/geography, technology, economics, and policy.

◇ **Geology:** Where do the hydrocarbons exist in commercially-viable sediments? This could include conventional oil fields (on-shore or off-shore); shale; oil sands; or other resources that could be potentially unlocked by future technological innovations (such as gas hydrates). This is NOT likely to be an issue of scarcity: Over long time periods, the world is far more likely to run out of oil demand than to run out of oil supply.

- By the way, I included “geography” as part of this answer because we need to remind ourselves that we already know how to make fuels from other sources as well—think about bio-fuels, or electric vehicles (with batteries, minerals for which need to be mined).

◇ **Technology:** Innovation has always been a key part of the world’s oil & energy story. Most recently, the innovations of horizontal drilling & hydraulic fracturing helped open up shale resources to commercial development. We can’t predict future innova-

tions, but we know they will happen... especially in countries that provide the right economic & political incentives (see below).

◇ **Economics:** There are infinite options for energy to meet the world’s future needs; the question is, which ones will be able to compete? How will competition with other energy forms (or with efficiency measures) evolve?

- And note that part of the future supply story will be the future demand story—will economic growth require greater supply? Will policy or consumer preferences shift?

◇ **Policy:** How will governments prioritize the production AND consumption of oil compared with other energy forms in the future? Will owners of large, low-cost resources try to manage future production (for example, as OPEC countries have done historically) or will they pursue more aggressive competition for global market share? Will consuming countries adopt more aggressive climate/efficiency policies?

**APERC—You also conducted several research on energy security, how do you think the risks and challenges have evolved in the global oil security landscape? What do you think was the greatest threat to oil supply security that the world has ever experienced?**

**Mr Finley—**The greatest threat ever? I suppose the answer depends on the perspective you want to use!

Access to military fuel has always been a key part of oil security discussions. In the Second World War, oil loomed large in the strategic calculus of all the major players in

the world’s worst global conflict. You can read all about that in history books, including Daniel Yergin’s Pulitzer Prize-winning “The Prize”.

In the minds of many Americans, the oil embargo of 1973 certainly makes the list, though the long lines that many consumers (and policymakers) remember were due to domestic price controls rather than supply disruptions...

◇ The oil shocks of the 1970s led countries in Western Europe, North America and Asia to develop multilateral programs and policies for dealing with oil supply disruptions, recognizing that oil is a global market and needs cooperative solutions.

From a planetary perspective, I think you could make a good case that climate change and its related security implications are the greatest threat. And from the perspective of oil producers, the threat of aggressive action to reduce CO2 emissions – and fossil fuel use – are surely seen as significant threats.

But however you view the threats, the key point from my research is that policymakers and decisionmakers in our society need to work hard to understand the nature of the vulnerabilities and risks we face, and to adopt policies to manage or mitigate them.

**APERC—In your experience in the sector, have you been sought advice in addressing oil and gas supply security issues? If yes, do you mind mentioning which country and in what particular issue or what were the cause of the threat? How did you address the supply (or potential) disruption?**

*(next page)*

## Interview....

**Mr Finley**— I began my career as an energy security specialist for the US government in the 1980s, but have advised many governments over the years. An early example was assessing the oil market implications of the 1990 Iraqi invasion of Kuwait, and the resulting international embargo of Iraqi supplies (in addition to the loss of Kuwaiti production).

My basic framework is to assess vulnerability, risk, and offsets. I've found that this analytic approach has been effective in many different applications over the years, for oil and other energy forms. I discussed this framework and its application to both oil and new energy sources in a recent Rice University report, available here: <https://www.bakerinstitute.org/media/files/files/844c4e55/bi-report-112519-ces-energytransition.pdf>

Vulnerability is a function of how exposed your system is to an energy shock. This could include the size of the energy input to the economy (in absolute terms and especially in financial value), the degree of substitutability, and the concentration in key sectors, such as the importance of oil in transport.

Risk assesses the chances of a shock. Considerations must

include not only the probability of a disruption but also an assessment of the potential magnitude and duration. For example, a large but brief shock may be less disruptive than a small but long-lasting one.

And finally, offsets represent the capacity to counter an energy shock. This could include the ability to increase production elsewhere, draw supply from inventories, switch to other energy sources, and/or reduce demand by conserving energy. The purpose of these interventions is to cushion the impact of the shock while giving markets—both producers and consumers—a chance to respond in a more orderly fashion. ***It is very important to note that a well-functioning energy market is a critical component of a successful energy security strategy.***

Energy security policy can aim to address any of these dimensions. To cite just a few examples, vulnerability can be reduced by diversifying the fuel mix, risk can be managed via diplomacy or military power, and a strategic stockpile can be used to offset lost supply.

***APEREC—The price of oil has been fluctuating which also affect gas prices. As one of the key elements of oil or gas supply security is price stability, how and when do you think***

***this cycle will break?***

**Mr Finley**— I think it is very important to start by recognizing that a certain amount of price fluctuation is a good thing: in a well-functioning market, prices move to signal that producers and consumers need to change their behavior.

- ◇ The price movements make sure that energy resources are used smartly by consumers in the activities that add the most value to society, and that they are produced by the most efficient suppliers.
- ◇ Price movements also create opportunities for innovation. The US shale revolution would not have happened without a period of high oil & natural gas prices, which gave companies the incentive to experiment in hopes of unlocking new business prospects.
- ◇ Moreover, modern financial markets give energy producers and consumers opportunities to buy insurance against adverse price moves in the form of hedging.

Some of our biggest challenges come from examples of markets NOT being given the opportunity to work.

- ◇ Subsidies slow the reactions of both (*next page*)

## Interview.....

producers and consumers to changing market circumstances...and cost governments huge amounts of money.

- ◇ Protectionist policies distort global competition and add cost.
- ◇ Often, the environmental impacts of energy use are not reflected in the cost of energy, which leads to adverse impacts on public health.

The remaining question is, when is a price TOO volatile? To me, this boils down to a slightly different question: When is a disruption TOO big for the market to handle on its own? Unfortunately, there is no single, correct answer to this question—it is a matter of judgment. Different societies will have different perspectives on what is “too” big. Oil and natural gas have always been seen as strategic industries, and ones that are highly cyclical – prone to regular ‘booms’ and ‘busts’. Those two factors combined historically to convince policymakers in many countries that energy was too important to be left to market forces. But as you can see, my argument has been that policymakers can often enhance energy security by expanding the reach of market forces.

**APERC— In 2015, the COP 21 Paris Agreement brought all nations together to exert efforts in creating a sustainable future. How do you think the Agreement affects future oil supply?**

**Mr Finley—** As always in economics, the answer is, it depends! There are huge uncertainties around the policies countries will adopt, as well as the future evolution of technology. Accordingly, many energy planners – in governments and companies – are using scenarios to understand the range of potential outcomes, as well as the key variables that will drive us along different future energy pathways.

But there are some common conclusions.

- ◇ For example, most analysts believe that the policies currently in place around the world will NOT deliver a successful global outcome for the Paris accord—MORE action is needed.
- ◇ Another area of agreement: in a wide range of scenarios that are consistent with meeting the Paris objectives, the natural decline of current oil and natural gas wells globally means that significant, ongoing investment will be needed in oil & gas supply even in scenarios of a successful (2-degree) transition.

The policies of key oil producers are a critical question for future oil supply under Paris-type scenarios. Countries like Saudi Arabia have large, low-cost oil reserves but also large requirements for oil revenues to drive their economies and government finances. In the future, will they continue to restrain production to support oil prices & maintain high oil revenues? Or will they succeed in diversifying their economies, reducing their dependence on oil revenues and allowing them to accept lower oil prices while growing their market share?

**APERC— The current Covid-19 pandemic has brought oil demand and consequently oil prices to plunge incessantly. What do you think happens after OPEC failed to reach agreement with Russia on a deal to cut oil production?**

**Mr Finley—** First and most importantly, we need to be humble in assessing this crisis while we are still living in it. We have never seen such a large, rapid decline in global oil demand – many analysts now believe that global demand in April may have fallen by roughly 30 million barrels per day, or 30% of total demand. Moreover, many believe global oil demand for 2020 as a

whole will see the biggest annual decline ever. But the honest answer is that nobody knows how deep, or how long-lasting the COVID-19 pandemic impact will be.

In addition, as you note, the oil market has also been impacted by the OPEC-Russia price war. After a very unusual intervention by the US government, all of the interested parties have agreed on the largest coordinated production cuts in history—with the OPEC+ group agreeing to cut output by nearly 10 million barrels per day in May/June. President Trump has said that, adding in contributions from other producers including the US as well as potential purchases of crude for strategic stockpiles, a total of 20 million barrels per day may ultimately be removed from the market through this agreement.

Many hope that these moves will help to stabilize the global oil market. But again, there are huge uncertainties:

- ◇ When will demand recover – and how strongly?
- ◇ What degree of compliance will we see from the OPEC+ countries in delivering their promised production cuts?
- ◇ How quickly – and by how much – will production fall in the US and elsewhere due to the collapse in investment?
- ◇ Will global inventories fill up?

Again, the honest answer is that we don’t know. But hopefully we know what variables to watch as the answer develops!

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*“...a total of 20 million barrels per day may ultimately be removed from the market...”*

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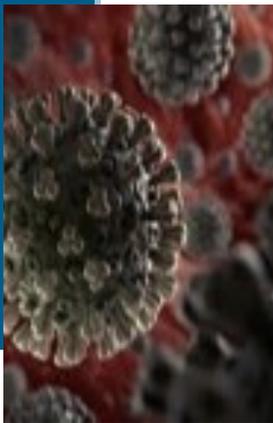


## Corona Virus (COVID-19)

The first human cases of COVID-19, the disease caused by the novel coronavirus causing COVID-19, subsequently named SARS-CoV-2 were first reported by officials in Wuhan City, China, in December 2019.

As of 29 April 2020, COVID-19 has spread to around 213 countries and territories with a total of 3 024 059 reported confirmed cases, globally (WHO, 2020)

(Photo by ALDA News)



## APEC Oil Production to Decrease Drastically in Response to the Great Lockdown

by Christopher James DOLEMAN

The coordination between G20 and OPEC+ to align 90% of global oil supply to counteract the 30 million barrels per day (mb/d) of demand destruction by the Great Lockdown will significantly reduce APEC's short-term oil production. In line with the OPEC+ 9.7 mb/d output cut, Russia (a 2.5 mb/d cut), Brunei Darussalam (0.023 mb/d) and Malaysia (0.14 mb/d) are reducing output by 23% (OPEC, 2020) (Blas, 2020). Mexico, driven by its nationalist program that prioritises increasing domestic production, is contributing a smaller cut of 5.8% (0.10 mb/d). Further support outside OPEC+ is driven by the G20's commitment to "take all the necessary and immediate measures to ensure energy market stability" (G20, 2020). While the G20 did not proffer specific commitments, cratering demand and the accumulation of oil in storage will send price signals to its producers that are conducive to the broad strategy.

Amidst this, the United States and Canada, through organic declines, shut-ins, or curtailment, will need to bear their

share of this burden.

American contributions will mostly stem from the organic decline of shale production that requires WTI prices higher than 30 USD per barrel to drill new wells (Dallas Fed, 2020). Because of its short investment cycle and steep decline rates, a shale drilling slowdown will swiftly reduce total US production. Rig activity is already down 35% from its March peak, and a flurry of spending reductions will depress future activity too<sup>1</sup> (Baker Hughes, 2020). The Energy Information Administration (EIA) projects 2020 US production to decline nearly 2 to 11 mb/d (EIA, 2020). With WTI prices hovering well below the cash costs of some producers, further reductions from shut-ins and government intervention are possible. Last week the Railroad Commission of Texas (RCT), the state's oil and gas regulator, considered prorating a 20% output curtailment over large producers in its jurisdiction, for the first time in 50 years (RCT, 2020).

Most declines in Canada will come from the curtailment or shut-in of oil sand production, which is unable to decrease organically because of its low natural decline rate. Mining operations that do not upgrade their bitumen are good reduction candidates, as they have

higher operating costs than thermal in situ producers and sell a cheaper, non-upgraded product than integrated mining operations that employ an upgrader. Curtailment of thermal in situ bitumen will still occur, particularly by its higher-cost producers, albeit limitedly, as significant curtailment risks degrading the resource. With Canadian prices testing negative levels, producers are implementing curtailment and reducing capital expenditures<sup>2</sup>. Analysts believe that Canadian reductions are already around 0.32 mb/d and could rise as high as 1.7 mb/d (Rystad Energy, 2020) (Reuters, 2020a). Government may also utilize existing legislation to mandate production cuts to spread the burden across the entire sector.

The Great Lockdown will in turn affect oil security in the APEC region. Reliance on oil imports could increase, as low prices jeopardise growth from high-cost domestic resources. Indonesia could see further delays to its resource development, prolonging the streak of its production decline, as could China, where the average supply cost of oil is 50 USD per barrel (Reuters, 2020b) (SCMP, 2020). While there is little concern for oil supply security during the current surplus, risks may emerge over **(next page)**

## APEC Oil.....

time if some supply reductions become permanent, the economic recovery is rapid and travel restrictions are swiftly alleviated. For example, this crisis could further erode confidence in the shale business model, removing its role as swing producer and relaxing its ceiling on upside price risk for consumers over the past decade. However, a successful restructuring of shale producers could surmount this, as the flexibility shale offers via its short investment cycle will remain attractive in a rebounding price environment (Medium, 2020). On the demand side, COVID-19 could fundamentally alter the future structure of oil consumption, and indirectly improve energy security. For example, some employers are already embracing telework as a long-term business solution (Brookings, 2020). Any outcome that reduces global oil consumption long-term would certainly boost supply security throughout the APEC region.

<sup>1</sup>Percentage declines in 2020 capital expenditures from prominent shale actors include: 55% for Continental, 48% for Occidental, 31% for EOG Resources, 30% for Exxon, and 20% for Chevron (S&P Global, 2020).

<sup>2</sup>The Fort Hills project is curtailing half of its production and considering a complete shutdown of its 0.2 mb/d operation (Teck, 2020). Capital expenditure declines in 2020 include: a 27% reduction for CNRL, 30% by Imperial, 32% by Cenovus and 26% by Suncor. Production declines have also been announced at Cenovus and Imperial, and timelines for production expansions have been delayed or postponed (S&P Global, 2020). However, in the absence of a significant decline rate, capital budgeting will reduce expansion potential rather than immediate output.

*“...risks may emerge over-time if some supply reductions become permanent...”*

## OIL AND GAS PRICES

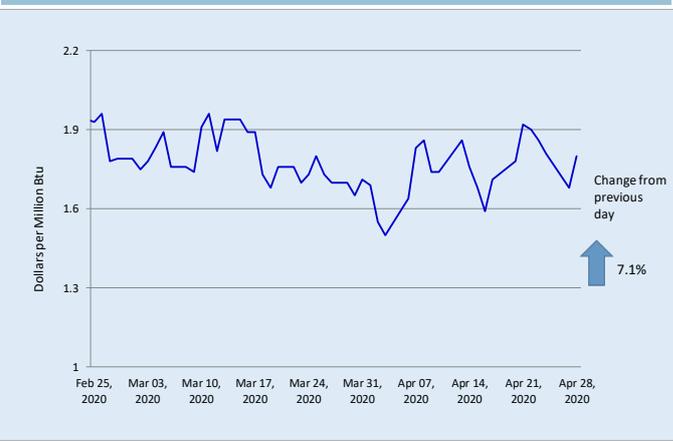
### CRUDE OIL SPOT PRICES



**WTI—USD 12.17 (Apr 27)**

Source : US Energy Information Administration

### NATURAL GAS SPOT PRICES



**Henry Hub—USD 1.80 (Apr 28)**

Source : US Energy Information Administration

*In just one month after COVID-19 was declared pandemic, the price of West Texas Intermediate (WTI) plunged 33% to USD 8.91 on 13 April 2020 from USD 33.13 on March 11, 2020. And for the first time in history, on Monday, 20<sup>th</sup> April, the price of WTI for delivery in the month of May fell as low as minus USD36.98 a barrel.*

## The Short-Term Impact of COVID-19 on LNG Market

by Fang-Chia LEE



“Several aspects of LNG market have seen the impact of COVID-19.”

Ever since the first case of novel coronavirus (hereinafter COVID-19<sup>1</sup>) was reported in Wuhan, China, in late December 2019, the virus has turned into a global pandemic and spread to 213 countries and territories<sup>2</sup>. As vaccine for COVID-19 is not available yet, every government started to enforce extreme measures such as closing the borders and putting major cities and states into lockdown to contain the virus outbreak. Nevertheless, there are still more than 2.8 million confirmed cases and at least 198,000 people have died as of April 27, 2020<sup>3</sup>. And this happened in merely four months.

The global pandemic has become one of the severest crises in human history as it impacts every single person in every aspect of life, ranging from school closures, business bankruptcy, far fewer international and domestic flights, surging unemployment rate to falling stock markets. Energy markets are also inevitably hit by the pandemic, especially oil and gas markets.

Several aspects of LNG market have seen the impact of COVID-19. First, some contracts were halted as the demand massively declined. In February, at least 14 LNG import cargoes to China are cancelled with the declaration of

“force majeure”. Ten cargoes were cancelled by China National Offshore Oil Cooperation to Shell, and PetroChina cancelled two cargoes from Qatar and other two from Malaysia. The Chinese buyers claimed that gas demand largely depressed as Chinese government continued enforcing measures to contain the spread of the virus. Also, the buyers were facing labour constraints at port during the lockdowns in several major cities. The measures included suspending domestic and international flights, banning the uses of public and personal transport, forcing manufactures to shut down.

This does not only happen in China. Other major LNG buyers such as Japan and Korea are also in discussions with their contract suppliers to defer the delivery of LNG cargoes. The deferment varies from a few days to as late as next year.

Second, some LNG projects are facing short-term setbacks in construction. LNG Canada announced in March a temporary cut of 50% of its manpower, more than 1,000 workers, in its construction to manage the risk of possible outbreak on the site. Woodfibre LNG project also announced a one-year delay on the construction, which was meant to start in summer. This is inevitable as the manufacturing plant in China that was

making components for the facility was shut down. Amidst the delays in project construction, the world’s largest LNG exporter Australia, is facing uncertainties in prices and volumes to be contracted for its pre-FID projects as some have the most expensive LNG facilities.

Third, the prices in Asia have dropped to historic low, \$2.3 per million British thermal units (mmBtu), down from \$5 mmBtu in January. Some LNG sellers complained that the low prices in spot market is part of the reason why China cancelled cargoes from long-term contracts as the importer can buy at cheaper prices.

After four months of the first case of COVID-19, we still have not seen a stop on its spread and vaccine is still not yet out. No one knows how long it will last, so is the impact to the LNG market. The shock is unprecedented, but economic growth rates may quickly revert to their previous growth track. In the long-term, LNG is expected to play an essential role in energy transition to low- or even zero-carbon future, especially in China as it desires to replace coal with more gas. Moreover, China’s waiving of US LNG tariffs offered a glimmer of hope for the expected demand recovery. However, there is still a great uncertainty as the world does not have a solution for the virus yet.

<sup>1</sup> COVID-19 is the official name for 2019 novel coronavirus announced by World Health Organization.

<sup>2</sup> WHO, Coronavirus disease (COVID-19) outbreak situation, <https://www.who.int/emergencies/diseases/novel-coronavirus-2019>.

<sup>3</sup> WHO, Coronavirus disease (COVID-19) outbreak situation, <https://www.who.int/emergencies/diseases/novel-coronavirus-2019>.

## UPCOMING EVENT

### The 6<sup>th</sup> Oil and Gas Security Network Forum

The 6<sup>th</sup> Oil and Gas Security Network (OGSN) Forum, an annual event under OGSF was postponed due to COVID-19 pandemic.

The 6<sup>th</sup> OGSN Forum was originally scheduled on 21-23 April 2020, the new schedule is not yet decided.

As in the previous, the forum will serve as a venue to form a network of working level officials in the APEC economies and experts from international/regional organizations.

For any development or new information, these will be announced in the coming issues of the Newsletter.

## UPCOMING EVENT

### The 5<sup>th</sup> Oil and Gas Security Exercise

The 5<sup>th</sup> Oil and Gas Security Exercise (OGSE) was postponed due to COVID-19 pandemic.

The OGSE to be hosted by the Ministry of Energy Thailand was supposed to be scheduled on 24-26 February 2020. The new date for the exercise is not yet decided but the organizer's preferred dates will be in December this year or some time in the first quarter of 2021.

The meeting is supposed to be presided by the Permanent Secretary of the Ministry of Energy Thailand and the venue will be at the Energy Complex building.

For any development or new information, these will be announced in the coming issues of the Newsletter.



#### ASIA PACIFIC ENERGY RESEARCH CENTRE

The Asia Pacific Energy Research Centre (APERC) was established in July 1996 in Tokyo following the directive of APEC Economic Leaders in the Osaka Action Agenda. The primary objective of APERC is to conduct researches to foster understanding among APEC members of regional energy outlook, market developments and policy.

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