



# Covid-19, Oil and Stability in the Middle East

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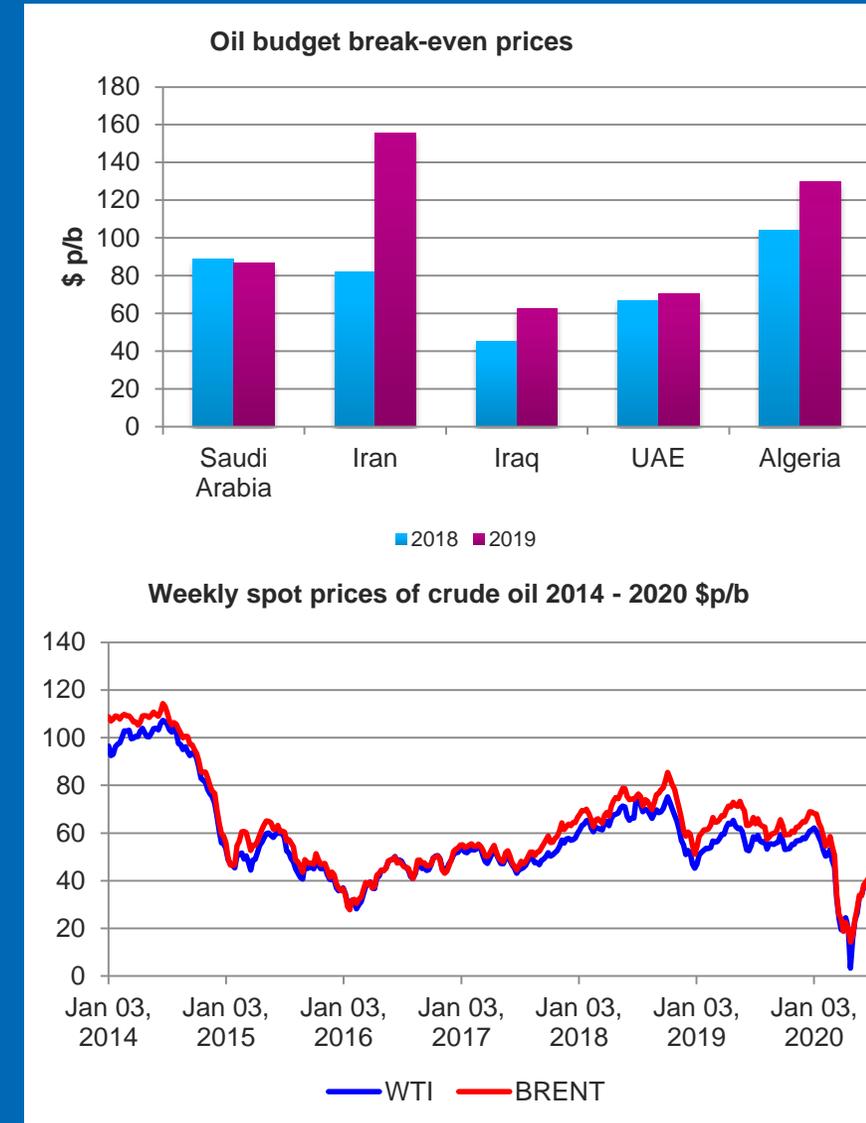
5<sup>th</sup> IEEJ/APERC  
International  
Energy Symposium  
18<sup>th</sup> September 2020

# Presentation outline = TWO ASSERTIONS

- 1. The Middle East is already very unstable**
- 2. COVID-19 will aggravate that instability**

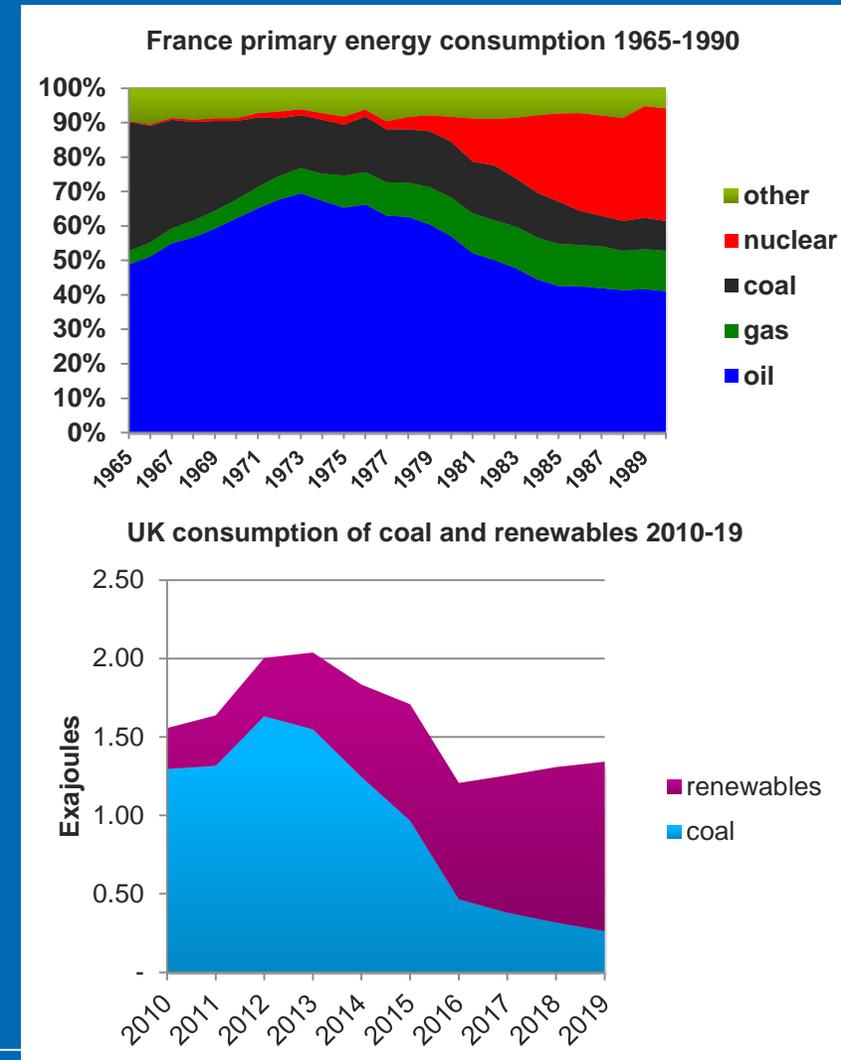
# WHY IS THE REGION UNSTABLE?

1. FAILURE TO ADDRESS THE CAUSES OF THE ARAB UPRISINGS FROM 2011 = POPULAR FRUSTRATION WITH INCOMPETENCE, CORRUPTION, RISING UNEMPLOYMENT AND UNMET ASPIRATIONS
2. FAILURE TO DIVERSIFY THEIR ECONOMIES = POST OIL PRICE COLLAPSE OF 2014, INABILITY TO BUY-OFF POPULAR UNREST ARISING FROM RISING UNEMPLOYMENT
3. GIVEN THE CONFERENCE THEME: INTERFERENCE BY 'OUTSIDE POWERS' CREATING COMPETING 'CLIENT STATES'

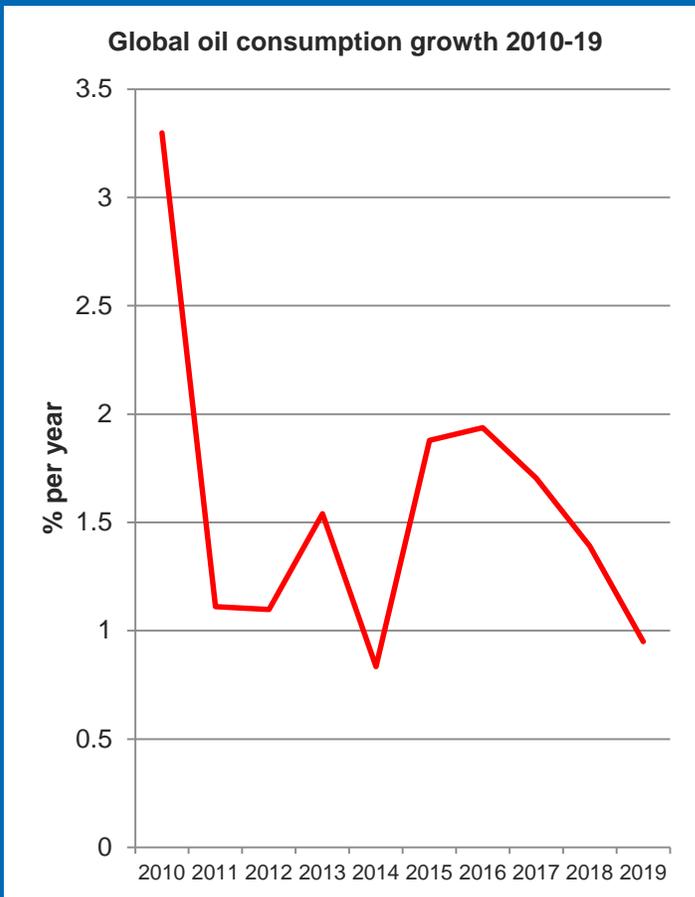


# THIS INSTABILITY HAS ALREADY BEEN AGGRAVATED BY THE ENERGY TRANSITION

- CURRENT ENERGY TRANSITION
  - From hydrocarbon molecules to electrons
  - Underestimated by the ‘Energy Establishment’ because of too many vested interests plus intellectual inertia and a lack of creativity
  - Beware the myth “energy transitions are slow”. They can be very quick if governments intervene e.g. France and UK



# WHY THE ENERGY TRANSITION HAS ALREADY AGGRAVATED REGIONAL INSTABILITY?



- SLOWED GROWTH IN OIL DEMAND. CREATED DOWNWARD PRESSURE ON OIL REVENUES
- COMPETING FOR MARKET SHARE: SAUDI VERSUS IRAN SPILLS INTO GEOPOLITICS

Research Paper

Paul Stevens  
Energy, Environment and Resources Department | August 2019

## The Geopolitical Implications of Future Oil Demand

<https://www.chathamhouse.org/publication/geopolitical-implications-future-oil-demand>

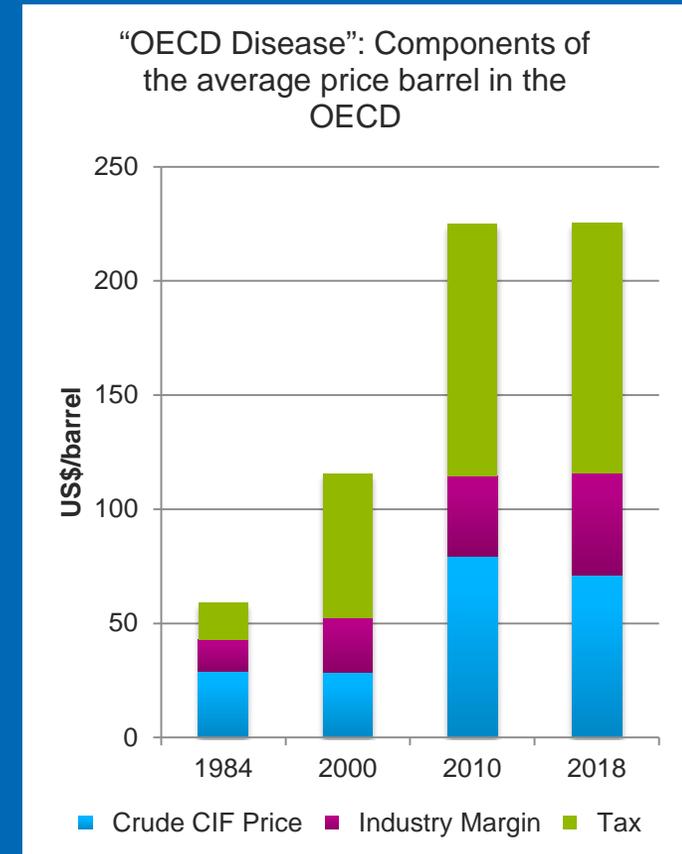


# IMPACT OF COVID-19 ON THE TRANSITION? KEY QUESTION = SPEED IT OR SLOW IT?

## SPEED UP THE TRANSITION AWAY FROM OIL? (1)

- DEEP ECONOMIC RECESSION TRIGGERED: REDUCING OIL DEMAND?
  - STIMULUS PACKAGES VS BUDGET DEFICITS
  - GLOBALIZATION, SELF SUFFICIENCY AND TRADE WARS
  - CONSUMER PRECAUTIONARY SAVINGS + AGGREGATE DEMAND
- CHANGE IN BEHAVIOUR = LESS TRAVEL = 60% OF LIQUID FUELS

BUT WILL LOWER OIL PRICES INCREASE OIL DEMAND?  
NO! OECD DISEASE AND BUDGET DEFICITS



# IMPACT OF COVID-19 ON THE TRANSITION? KEY QUESTIONS – SPEED IT OR SLOW IT?

## SPEED UP THE TRANSITION AWAY FROM OIL? (2)

- **BOOSTS FOR RENEWABLES FROM COVID-19**
  - SELF SUFFICIENCY NOW INCREASINGLY IMPORTANT
  - POVERTY NOW INCREASINGLY IMPORTANT – LOCAL RENEWABLES HELP LOWER GRID COSTS
- **CHANGING THE ROLE OF GOVERNMENTS?**
  - THE 'WASHINGTON CONSENSUS' IS DEAD! GOVERNMENTS MUST INTERVENE

## BUT MIGHT IT SLOW THE TRANSITION?

# MIGHT THE PANDEMIC SLOW THE TRANSITION?



EXCELLENT SOURCE Angus Mc Crone BLOOMBERG NEF 7<sup>th</sup> August 2020

- POLITICAL DISTRACTIONS?
  - GOV'TS FOCUS ON CONTAINING COVID-19 AND RESULTING UNEMPLOYMENT – CLIMATE CHANGE SLIPS DOWN THE AGENDA? But urban air quality as a driver of policy?
- RECESSION CUTS SPENDING ON EVs AND SOLAR PANELS
  - LOWER ELECTRICITY DEMAND = IMPACT ON INVESTMENT IN RENEWABLES AND PPAs?
- INCREASING COST OF CAPITAL? BUDGET DEFICITS REQUIRE HIGHER INTEREST RATES
- CHINA VS WEST CONFLICT REDUCES CHANCES OF COP26 DEALS?

# CONCLUSIONS: ON BALANCE - PANDEMIC WILL AGGRAVATE MENA UNREST AND INSTABILITY

- RISING DEATH TOLL EXPOSES GOVERNMENT INCOMPETENCE
- FALLING REVENUES AS OIL DEMAND PEAKS SOONER THAN EXPECTED
- OIL MARKET SHARE COMPETITION WILL AGGRAVATE REGIONAL GEOPOLITICS

## **BUT** MAYBE AS THE TRANSITION DEVELOPS, EVENTUALLY

- OIL BECOMES LESS IMPORTANT = LESS EXTERNAL INTERVENTION = GREATER STABILITY? I.E. CHANGES THE GEOPOLITICS OF ENERGY TO THE GEOPOLITICS OF CARROTS...(NINJIN)

# THANK YOU FOR YOUR ATTENTION



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