

COVID-19's Long-Term Structural Impacts on Energy Markets

Ken Koyama, PhD
Chief Economist, Managing Director
The Institute of Energy Economics, Japan

The new Coronavirus Disease 2019 outbreak has developed into a pandemic, rampaging throughout the world. COVID-19 has infected more than 1.2 million people and killed nearly 70,000 by April 6, according to the World Health Organization. Countries in the world have taken very powerful actions such as city lockdowns. Japan was to issue an emergency declaration on April 7.

The COVID-19 expansion has exerted grave impacts on the world including energy markets. The biggest and most dramatic one of such impacts has come on the international oil market and on crude oil prices. At a time when the market has been in oversupply due to rising U.S. shale oil production since early this year, unprecedented supply and demand shocks have emerged, triggering a crude oil price crash. The demand shock represents a substantial oil demand decline on growing global economy risks and city lockdowns caused by the COVID-19 expansion. Amid the demand shock, cooperation between Saudi Arabia and Russia in oil production cuts broke up, leading to a price war as the supply shock. On March 30, the front-month West Texas Intermediate futures contract plunged to \$20.09 per barrel on the brink of falling below \$20/bbl. In response, U.S. President Donald Trump took leadership in reviving joint oil production cuts involving Saudi Arabia and Russia, as described in the 474th issue of A Japanese Perspective on the International Energy Landscape. The world is paying attention to what would result from an emergency meeting between the Organization of the Petroleum Exporting Countries and non-OPEC oil-producing countries that has been delayed until the second half of this week and to whether they could agree on joint oil production cuts coming to an unprecedented level of 10-15 million barrels per day. The U.S.-Russia-Saudi Arabia initiative emerged from their sense of crisis that crude oil prices would fall further as global oil demand plunges at an unprecedented speed due to the COVID-19 pandemic in and after the second quarter of this year.

In this way, the COVID-19 pandemic has already exerted grave impacts on international energy markets. In addition to crude oil prices, spot liquefied natural gas prices have declined substantially on an LNG demand plunge. The sharp energy demand decline through the pandemic expansion is the most serious impact on energy markets at present. Through talks with energy experts in Japan and other countries amid the COVID-19 expansion, however, I have got an impression that the pandemic may exert long-term structural impacts on the international energy landscape, providing various important implications. These implications may be long-term challenges that are less urgent than current serious problems. Given that these implications would be important and attract attention from “A Japanese Perspective on the International Energy Landscape,” I would like to summarize the long-term structural impacts hereafter.

First, I have found that conventional social life and economic activities have fundamentally changed. As human traffic is restricted to address the pandemic, “telework” practices at home and other remote sites other than conventional workplaces have diffused rapidly and “web meetings and conferences” have increasingly replaced direct meetings for sharing views and

networking. A key point is that economic and social means to secure some convenience and efficiency and protect health and safety while restricting human traffic have spread. What implications does this have? One implication is that energy demand accompanying human traffic could be structurally restricted. If the COVID-19 pandemic ends, the world may restore the conventional situation where a huge number of international conferences are implemented, with people commuting to workplaces. However, some traffic demand could be lost. Energy demand accompanying human traffic centers on oil. We may have to pay attention to the possibility that oil demand growth could be structurally restricted on a global scale. Even since before the COVID-19 pandemic, slowing oil demand growth has attracted attention from stakeholders amid the “decarbonization” trend. I would like to watch what influence the pandemic would exert on future oil demand. Given that digital measures reduce human traffic demand, electrification could make further progress. Even without the pandemic, electrification has been a core trend in energy transition. If the transition to an electrified society accelerates further, however, stable, affordable and sustainable electricity supply will grow even more important.

Second, the balance of importance or priorities among major energy challenges could change. Before the COVID-19 pandemic grew so serious, the most attention-attracting energy challenge had been decarbonization. Global climate change has remained a significant challenge exerting great influence on the future of the world. In the face of the COVID-19 pandemic, however, top priority is given to the urgent challenge. If the pandemic ends, decarbonization initiatives will attract attention again. Even so, the significance of energy security may be reviewed from the viewpoint of human safety and security. In some past cases, key events triggered changes in social perceptions. When a conflict between Russia and Ukraine caused a disruption to natural gas supply to Europe in 2009, for example, energy security attracted interest in Europe. Given that the COVID-19 pandemic has brought about remarkable energy oversupply and price falls, the above mentioned European case may not be repeated simply. However, I would like to pay attention to how and whether the pandemic, as an event that could greatly change social perceptions, would change the priority balance among economic efficiency, energy security and environmental conservation.

Third, the COVID-19 pandemic is seemingly affecting international relations, international cooperation, market principles and free trade. Essentially, powerful global cooperation or collaboration is the best way to address a global threat like the pandemic. In fact, such cooperation is being implemented in some areas. In the face of the serious national crisis, however, many countries have no choice but to give top priority to protecting their respective peoples and economies. The more serious the crisis grows, the fiercer the survival race is, with some me-first policy being emphasized. To prevent the pandemic from expanding further or avoid infection and protect their economies, some countries have taken measures to concentrate necessary industries and goods on their respective territories. Traditionally, countries have developed the international division of labor in pursuit of the most efficient economic arrangement based on free market and free trade principles. The moves of some countries to gather key industries and goods on their respective territories are considered opposite to the traditional trend. The moves run counter to the pursuit of global efficiency and cost individual countries more. As the perception that additional costs are inevitable for national security and survival grows stronger among countries, they may become more distant from international cooperation or collaboration and free trade, providing undesirable implications for the world.

The abovementioned three potential long-term structural changes are based on my personal impression or sentiment rather than on any detailed analysis. Although they are destined to be checked closely, I would be happy to see my comment becoming useful for discussion as a

IEEJ: April 2020 ©IEEJ 2020

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Contact: report@tky.iej.or.jp

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