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Viewpoints for Considering International Energy Situation under COVID-19 Pandemic

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On May 20, the Institute of Energy Economics, Japan, held the Second IEEJ Energy Webinar titled "COVID-19 Pandemic and Latest International Situation," where some 400 participants discussed relevant issues based on my presentation on COVID-19 and the international energy situation and IEEJ Oil Group Manager Tetsuo Morikawa's report on an oil supply and demand outlook through 2021. In the following, I would like to summarize six viewpoints for considering the international energy situation under the still rampant COVID-19 pandemic.

First, the future course of the pandemic itself is the most important factor. The international energy market is plagued with a grave oversupply as symbolized by the crude oil price crash because the pandemic exerted huge impacts on the world oil demand. While COVID-19 infections and deaths have been expanding globally, people in Western countries among the recent infection epicenters increasingly view the pandemic as having peaked and expect stabilization. As these countries are moving to reopen business and ease or lift traveling and outing restrictions, hopes have begun to be placed on a recovery in energy demand. In contrast with growing hopes for the end of the pandemic, however, concerns are growing about the second and third COVID-19 pandemic waves. The future course of the global economy or global energy demand would differ depending on how fast the pandemic would end or whether the second and third pandemic waves would come. The IEEJ has considered three scenarios – a reference scenario for relatively early stabilization, a prolonged pandemic scenario for the stabilization's delay until the second half of this year and a scenario for the second pandemic wave coming next year. In the first and second scenarios, global energy demand would plunge this year before restoring the 2019 level next year. In the second pandemic wave scenario, however, energy demand would remain sluggish in 2021. The international energy situation would thus differ depending on the future course of the pandemic.

Second, the energy situation would differ depending on global economic conditions that would be closely related to the future course of the pandemic. The IEEJ has projected the reference scenario in line with the International Monetary Fund's latest World Economic Outlook forecasting the world economy in 2020 to contract 3% from the previous year. In the scenario, demand this year is projected to crash 9% from the previous year for oil and 8% for liquefied natural gas. The demand crash is behind the serious oversupply. However, concerns are growing on a greater global economic contraction than the IMF-forecast 3% decline that would be the worst since the Great Depression. In the United States, for example, second-quarter gross domestic product is predicted by some analysts to contract from the previous quarter at an annual rate of 40%. A similar economic deterioration is expected in Europe. The IMF has already indicated that it would forecast a greater contraction in its

next revision to the World Economic Outlook. If the world economy posts a greater contraction than 3%, energy demand would plunge more, as indicated in the prolonged pandemic scenario, adding fuel to the oversupply pressure. Attention should be paid to this point.

Third, many countries in the world are moving to reopen business and ease or lift traveling and outing restrictions, exerting influence on energy demand and crude oil futures price trends. Given that lockdowns and other severe restrictions have been a main factor behind the dramatic fall in oil demand, their relaxation or lifting will pave the way for an oil demand recovery. Moves to ease or lift restrictions began in May in many Western countries, Asian nations and Japan, leading to hopes for an oil demand recovery and crude oil prices' rally above $30 per barrel. This indicates these restrictions' great impacts. However, it is still uncertain whether restrictions could be eased or lifted smoothly. If COVID-19 infections expand again due to the easing or lifting of the restrictions or if the second and third COVID-19 pandemic waves come, energy demand could plunge again.

Fourth, attention should be paid to how the supply and demand sides of the international energy market respond to remarkably low prices and oversupply that have become real under the COVID-19 pandemic. The supply side has made characteristically different responses – strategic and political supply cuts by oil-producing countries including the Organization of the Petroleum Exporting Countries and non-OPEC oil producers and a decline in U.S. shale oil production under the economic pressure of low prices. In the LNG market free from any measure like joint oil production cuts by the OPEC-plus group, the economic pressure of low LNG prices is affecting supply. A key point on the demand side is whether low prices could stimulate demand. Particularly, attention is focusing on whether price falls could stimulate demand for natural gas and LNG exposed to competition from other energy sources. We will have to closely watch how responses from the supply and demand sides would influence the supply-demand balance.

Fifth, we should look at low prices' impacts on the energy industry and energy-producing countries. A key point in this regard is that the serious deterioration of the business environment under low prices could discourage the international energy industry from making energy investment required for future supply and lead to a potentially tighter supply-demand balance and market destabilization in the mid-term future. Oil-producing countries that depend heavily on oil and gas revenues now see their economic deterioration due to a substantial revenue fall caused by a demand fall under the COVID-19 pandemic and by price plunges. Economic deterioration could be coupled with the pandemic expansion to destabilize their domestic situation. The international energy market is now plagued with oversupply due to low prices that could lead to the market's future destabilization.

Sixth, we cannot ignore the international energy market's medium to long-term changes under the influence of the pandemic. Various conceivable medium to long-term and structural changes include those related to energy choices in a post-coronavirus world. Would an increase in telework and web conferences bring about a fall in demand for energy (including oil) for transportation and an increase in demand for electricity? How would energy choices be for plans to base post-coronavirus economic and social reconstruction on decarbonization initiatives and investment as seen typically in Europe? How would energy policies be influenced by increasing initiatives to raise energy self-sufficiency rates and give priority to national security in each country? As indicated by these questions, future energy mixes, and winner and loser energy sources are attracting interest. An issue looming in

the future could be what energy strategies should be for coping with the geopolitical environment in a post-coronavirus G zero world including rising U.S.-China tensions. It will become more and more important to assess such global trends as an important determinant of global energy landscape.

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