



EMEA Webinar on the collapse of the oil market amidst COVID-19 health crisis: A blessing or a curse?

Date 21 May, 2020, 3.00-4.30pm CET

The panel, moderated by Prof. Rym Ayadi, EMEA President, included Houda Ben Jannet Allal, General Director of the Observatoire Méditerranéen de l'Énergie (OME) in Paris who also heads the secretariat of the Union for the Mediterranean Platform on Gas; Radia Sedaoui the Chief of the Energy Section in the Sustainable Development Policies Division of UN-Economic Social Commission West Asia (ESCWA), the President of the “Arab Energy Club” and member of the “Algerian Association for Renewable Energies”; Raja El Marzoqi, Member of the Advisory Board of the Euro-Mediterranean Economists Association, Faculty member in economics Division at Institute of Diplomatic Studies in Saudi Arabia, former IMF advisor and co-chair of the T20 Taskforce on investing in infrastructure development and Ahmed Yousry Ibraheem, expert and representative of the Energy and Climate Action Division, Union for the Mediterranean

Introduction

The COVID-19 pandemic has disrupted the energy and financial markets worldwide and the world economy overall, as a result of a dramatic demand and supply shock. No country was immune. The panel discussed the state of play of energy markets amidst the demand and supply shock resulting from the COVID-19 pandemic, the macro economic impacts on the MENA region and the path towards sustainable energy developments to meet Paris targets

Panel presentations



Houda Ben Jannet Allal: Before the COVID crisis, in the context of the energy sector, there were tensions in the market related to geopolitics, security of supply and demand. At the same time, there were also increasing climate change concerns and innovation in the renewable energy (RE) sector and a strong willingness on the part of the EU to lead the energy transition. The COVID crisis has created high levels of uncertainty, with a massive drop in growth projections for all countries and an historic decrease in oil prices. Lockdown policies reduced the demand on energy and this reduction is expected to affect all sources of energy, except for RE, globally and regionally. The shortage in electricity demand, coupled with the priority of dispatch and low operating costs, has greened up the electricity mix. This will imply a reduction in CO2 emissions that are aligned with climate change targets. For the south Mediterranean, there is a huge potential for RE and energy efficiency which is attracting competitive bids that can be a driver for social development through job creation. However, the RE market is not immune to the COVID crisis. The crisis might encourage the speeding up of RE but might also heighten existing problems for small scale projects (access to finance, long-term commitments, administrative procedures, etc). Regarding new capacities, Greece and Lebanon plan to stick to existing schedules whilst the majority will postpone. The south and east

Mediterranean region is not on track to reach the fixed 2020 climate change target, but is progressing towards a longer-term target on the horizon in 2030. International and regional cooperation is of most importance. Re-booting Euro-Mediterranean cooperation is a must, not only for green energies but also for innovation.

Raja El Marzoqi: The COVID crisis has drastically reduced IMF growth forecasts to negative growth for the MENA region. Raja suggests that this negative growth might be worse than expected, since our region depends largely on government spending and the crisis hit reduced governments inflows and increased their spending, thereby increasing debt levels. For oil importers, the reduction in the oil price will not have a positive impact on their budgets. This is due to several factors. First, oil importers do not have heavy industries that can benefit from lower prices. Second, oil importers and exporters in the region are interconnected via 4 channels: Tourism, Remittances, FDI and Government aid (budget financing and development funds). These four channels are all hit by the crisis. A significant part of oil importers' GDP comes from abroad. Remittances from workers living in oil exporting countries that is directed to oil importing countries are expected to drop and remitters might even lose their employment and go back to their home country. This is because high remittance levels are related to unskilled labour that is affected by the levels of government spending. Additionally, the reduction of remittances can affect the exchange rate, balance of payments and internal demand. For oil exporters, the economy is highly dependent on government spending. The lockdown measures also affect existing businesses that will go out of business. And it will be very difficult to have 'business as usual' post COVID. Most countries are hoping for a 'v' recovery, but for our region it looks more like a 'u' recovery.

Radia Sedaoui: She argued about the vulnerability of energy systems to support socio-economic development in the MENA region. 'Business as usual' in the areas of energy and wider natural-resource management throughout the MENA region is not an option, due to multifaceted energy vulnerability. Energy vulnerability in the MENA region results from the inability to safeguard universal access to affordable, reliable and modern energy services for current and future generations and to support socioeconomic development. However, some progress has been made on several fronts: electrification, clean cooking, renewables and efficiency. The impact of COVID on the region is not fully captured yet. There is an increasing need for water, 30% of electricity is used for desalination, whilst water and electricity are still subsidised. And the oil price crash puts vulnerable MENA Oil exporting economies at even greater risk, with lower resilience following every cycle. For renewables, regardless of the delays in construction, business models applied on auction are having good results. The region relies heavily on fossil fuels and modern renewable

energy remains a largely untapped resource in the MENA region. The Circular Carbon Economy (4R) can support the transition to sustainable energy systems via a smooth transition following the COVID crisis. National energy planning needs to integrate sustainable energy targets with climate and socio-economic objectives, coordinated at a regional level. The key policy recommendations are: to improve energy efficiency, diversify energy source and to use and boost energy productivity.

Discussant, Ahmed Yousry Ibraheem: Facing up to the COVID 19 crisis, the Union for the Mediterranean (UFM) is posing a comprehensive strategy for recovery. The collapse of oil prices is a reminder of the importance of diversification. The green recovery must be integrated into the transition plan, along with supporting the circular economy and enhancing energy efficiency.

Main issues discussed

1. Perspectives

There will be change in behaviour and habits (such as working from home) and increasing trade protections that will affect the market, along with high macro-economic uncertainty. Regarding oil projects, many companies have cut their exploration and development projects and postponed their activities, but this is not in the long run.

2. Geopolitics

Influence of the USA on the MENA energy sector: The fundamentals will continue to have an impact on the oil market. It will also depend on how the US will view this given energy security and depending on the results of the upcoming elections.

3. Future (digitalisation and more emphasis on innovation, acceleration of green energy transition and the circular economy)

Digitalisation is key for the circular economy requiring very simple measures to improve the process.

Measures needed for energy transition: The need for a very specific and multisectoral approach that is coherent and regionally relevant. This is along the approach of consensus building amongst regional member states, with the focus on demonstrating and showcasing projects, and promoting successful methods and best practices.