

Keynote Speech
International Energy Executive Forum 2021
Global Oil and Gas Market: Great Challenges by COVID-19

Thank you to the CNPC Economics and Technology Research Institute for giving me the opportunity to speak at the International Energy Executive Forum 2021. Many scholars and academics have often stated that “as China goes, so goes the world.” This is certainly true as it pertains to current and future global energy demand.

As COVID-19 hit many parts of the world, the immediate consequence of this pandemic was a precipitous fall in energy demand, including in China – the largest energy market in the world. Combined with an exhaustion of storage capacity, oil prices tumbled to record lows with the WTI benchmark falling into negative territory for the first time in its history.

Fast-forward to today, not much has changed. The spread of Covid-19, and the attempts to suppress it, have been a shock to the global economy. The pandemic has brought energy demand to historical lows. As we now find ourselves in a second wave of the virus in many parts of the world, oil demand continues to struggle. In the latest IEF Comparative Analysis on IEA and OPEC oil market forecasts, demand will decline by 8.8 mb/d according to the IEA and 9.8 mb/d according to OPEC. This represents IEA’s largest demand decline since April while OPEC posted its largest decline of the year. Meanwhile, the COVID-19 pandemic has resulted in the largest recorded demand shock in the history of natural gas markets. Initial assessments suggest that natural gas demand will decline by around four percent in 2020. Interestingly, Chinese oil demand is expected to grow by 80 thousand barrels per day in 2020 which speaks to China’s massive energy consumption potential and ability to control the outbreak.

From a macro perspective, the unprecedented impact of the COVID-19 pandemic on global energy security, market stability, and sustainable economic growth since April this year has led to:

- Immediate reductions in demand, supply, and investment,
- Elevated market volatility and uncertainties around energy sector resilience
- Widening social divides notably in respect of energy poverty and energy access
- New energy and climate policy initiatives, industry, and business strategies

The uncertainty has been the greatest challenge of all. The uncertain duration of COVID-19 and associated economic impacts makes it difficult to control outcomes. While help seems to be around the corner in the form of various vaccines that show great promise, bringing stability to energy markets requires continued collective efforts.

Many economies have announced net-zero strategies as part of pandemic stimulus measures to ensure swift and sustainable economic green recovery that aims to “build back better.” China has rolled out ambitious energy, climate, and clean air policies. This includes extension of electric car subsidies and tax breaks until 2022 and will also include expanding the

country's charging network by 50 percent this year to stimulate electric vehicle deployment through installing an additional 600,000 charging points of which 200,000 will be public.

From a natural gas perspective, China plays a leading role. Together with major Asian growth economies and the global gas industry, China is well-positioned to help facilitate a sustainable economic recovery. As emission reductions in developed economies demonstrate, gas technologies accelerate fuel-switching and deeper penetration of renewables. This will enable affordable and resilient energy systems integration coupled with hydrogen technologies that are essential for sustainable growth.

However, even with the increased role of renewables and clean technologies, challenges remain in meeting climate, clean air, and sustainable development goals long-term. Oil and gas investment must recover from an unprecedented collapse of around 34 percent in 2019 to avoid increased market volatility, at a time when governments and consumers are already feeling the economic impacts of reduced revenues.

Without increased investment, supply demand balances can tighten faster leading to price levels trending higher in a more volatile energy market. This raises the risk of more frequent short-lived price spikes or longer lasting upward price pressure that will deepen COVID-19 impacts and slow-track economic recovery and sustainable growth prospects. Increased and more volatile prices will reduce the number of people able to afford the cooking, heating, and transportation fuels they require, and volatility will further increase uncertainty for companies and governments.

Increased market volatility and uncertainty will also reduce the ability for the oil and gas industry to afford investments in new, cleaner technologies and respond to rising regulatory and policy demands to combat climate change.

Achieving climate change goals through long-term net zero policies and other strategies would be aided by facilitating oil and gas sector investment to enhance short and medium-term market stability and deployment of clean technologies at scale.

Of course, increased investment in a time of economic uncertainty combined with government and company deficits will not be easy. It will require producers to have to find greater operational efficiencies through improved design and execution of future projects, optimising supply chains, and move towards further digitalisation of operations.

There is also an urgent need to improve energy market data transparency to better inform decisions by governments, investors, and traders in the new risk environment COVID-19 creates. The IEF will continue to push for more complete and faster energy market data submissions through the Joint Organisations Data Initiative that the IEF co-ordinates with Partner Organisations. Here, stronger engagement with China on oil and gas inventory data is of great importance.

In closing, I want to reiterate the importance of greater collaboration between producers and consumers and take the energy dialogue on forward to strategies to accelerate a secure, sustainable, and inclusive recovery. The IEF stands ready to help facilitate this collaboration

and strengthen ties with China during my Secretariat. I believe this will help to amplify the role that China plays in the global economic recovery, build up momentum for energy transitions in Asia, and serve as a powerful antidote to the uncertainty and volatility that is being felt throughout the world.