

# Great changes in global energy patterns cause the collapse of international oil prices

XU Qinhua: [xuqh@ruc.edu.cn](mailto:xuqh@ruc.edu.cn)

*XU Qinhua is a professor at School of International Studies, vice dean at National Academy of Development and Strategy, and director at Center for International Energy and Environment Strategy Studies, Renmin University of China.*

In recent days, the crude oil price has fallen sharply, hitting a new weekly fall record of 30 percent ever since 2008. The direct push is the global spread of the COVID-19 epidemic.

Since the World Health Organization identified novel coronavirus pneumonia as a "pandemic," major international agencies have lowered their expectations for the world economy this year. The sharp fall in current price and futures prices shows that market confidence is extremely low, and investors are leaving the field in large numbers. That is to say, the novel coronavirus pneumonia has started to show its significant impact on oil prices from March on the oil price dip that resulted from the weakening of oil demand, precipitated the fall of the Vienna Alliance on 6 March 2020 between Saudi and Russia.

While the world economy has not yet recovered from the financial crisis of 2008, it is also suffering a severe attack by the COVID-19. This has aggravated the unbalance between supply and demand, as the market supply exceeds the demand due to the rapid development of renewable energy. Now, the situation is even more serious and prices are being severely cut.

If the global spread of the epidemic is the fuse for the collapse of oil prices, then the great changes in global energy patterns are the real incentive. With the rapid development of production technology and the utilization of other energy resources, like nuclear, hydrogen, solar, biomass, shale oil, and gas, have all stepped into a historical stage. There is a two-sided diversification to non-fossil fuels: Supply-sided diversification, like the successful development and commercialization of shale oil and gas in North America, and consumption-sided diversification, such as the transformation of electricity from the original concentration to small-scale distribution. Besides, leading oil and gas companies in the 21st century will have to stay relevant in the context

of the energy transition. Business models will have to be modified to accelerate the coal to gas shift for instance, add cleaner forms of hydrocarbons as well as renewables to their portfolios, and capitalise on new business opportunities as the world electrifies.

But this time the oil price baseline should be supported at 20 U.S. dollars per barrel, for the following reasons. First, no matter how Saudi Arabia, the United States, and Russia fight in this price war, 20 U.S. dollars should be the lowest price that the three parties can bear. If it is lower than their production cost (about nine U.S. dollars for Saudi Arabia, 16 U.S. dollars for Russia, 30-40 U.S. dollars for U.S. shale oil because of its continuous improvement of technology), and taking into account profits, Saudi Arabia (Organization of Petroleum Exporting Countries), Russia (non-OPEC producing countries) and the United States (returning to the global oil and gas market from the Rockefeller era) will opt to work together and not let profits go to consumer countries.

Second, the epidemic situation in China, Japan and South Korea is gradually improving. Besides, India has been comparably less affected by the epidemic infection as the government said. This means that the domestic demand of these Asia-Pacific growing consumption centers will soon increase with the resumption of production, the demand will gradually recover, and the price will definitely be adjusted, but the pressure line of the callback is about 40 U.S. dollars.

The time necessary for prices to return to normal is around one year. In July 2008, the oil price dropped from 147.25 U.S. dollars to 33.98 U.S. dollars in January 2009, and in 2010, the correction touched 70 U.S. dollars; in November 2014, the oil price fell from 107.65 U.S. dollars to 53.8 U.S. dollars in July 2015, and we can see that 40 U.S. dollars is the baseline. Because of the huge impact of the epidemic, 40 U.S. dollars has now become 20 U.S. dollars. From the historic experiences of the financial crisis in 2008 and the conventional oil and gas crisis in 2014 released by the shale oil and gas revolution, the two markets and price correction cycles are basically about one year. However, the world economic recession this time triggered by the COVID-19 epidemic will be much more serious than it is in the year 2008 and the oil price will be much more fluctuating than it is in the year 2014, which as we know not only will be changing the energy regime but also the existent international order.

There are three factors that influence the reasonable return of international oil prices as the producers expect: The duration of the epidemic; the recovery of

the OPEC+ negotiation mechanism; whether the negotiation between Saudi Arabia and Russia in June can be successfully carried out even with the influence of geopolitical events; the extent of upstream investment reduction which determines the speed of re-balancing supply and demand.

The COVID-29 has been re-balancing the relationship between the producer and consumer, more is the relationship between human being and the nature, which forces people to re-think what the right sort of development we should follow. In energy field, the transformation from the traditional way to the non-tradition way of renewable has been already beginning.

Sooner or later, this crisis will pass, economic growth around the world will rebound, and oil prices may rise back to sustainable levels for oil companies and key producing countries. But for the producers, it is the real time for them to rethink how to combine the hydrocarbons with the new technologies. To the end, let's hope the COVID-19 will be the "Good Crisis".