

CEBC Webinar on “A Pandemic, Oil Price Collapse, A Deep Recession: Is the Future still Green?”

6 May 2020, 2:00 pm GST

CEBC organized this webinar to talk about the impact of COVID-19 on the economy, oil markets and the transition to clean energy with a special focus on the GCC.

Webinar speakers include:

- Dr. Nasser Saidi, Chairman of the Clean Energy Business Council MENA
- Dr. Carole Nakhle, CEO of Crystal Energy (UK)
- Moderated by Melanie Noronha, Senior Editor at The Economist Intelligent Unit.

The key takeaways from the webinar discussions are summarized below.

Both speakers provided comprehensive insights on the current economic situation of the oil-exporting economies and recommendations to build a more resilient economy post the COVID-19 crisis.

The outbreak of COVID-19 is a global health crisis which is leading the world economy into a recession. This pandemic, which has resulted in lockdowns across the globe, has led to a simultaneous supply and demand shock with multiple feedback loops. The result has been massive declines in production and consumption, substantial job losses and a severe liquidity squeeze for small businesses. It will also likely lead to a greater number of insolvencies and bankruptcies this year. While the duration and spread of the outbreak still remains uncertain, the main question is how the economic recovery will shape up.

The IMF estimates that cumulative output losses could be around USD 9trn over 2020-21, with no country or region spared from the impact. Also remember that COVID-19's effects are still unfolding in the emerging markets and in Africa and Latam, and also that a second wave has not yet been ruled out.

Governments have tried to limit the fallout by introducing timely policy responses - ranging from targeted fiscal measures to loan restructuring to broader central bank stimulus measures - but, the fact of the matter is that no tax rebate, low-interest loan, or cheap mortgage refinancing will convince people to resume normal economic activity if they still fear for their own health.

Alongside the COVID-19 outbreak, oil prices collapsed following the the unprecedented fall in oil demand following restrictions placed on local, domestic and international travel. As a result, the major oil producers (especially in the MENA/ GCC region) are facing a triple whammy - Covid19, oil price crash and a financial market shock.

Against this backdrop, what will a post-Covid recovery look like? For now, trade and travel have been negatively impacted and will remain weak this year; substantial job losses (especially in the informal sector where there is no recourse to receive stimulus) will lead to an increase in inequality and poverty. Economic recovery is likely to take the shape of Arabic 'ب' than the optimistic V shape or the pessimistic but possible U shape.

In the midst of it all, there has been an environmental silver lining: global CO2 emissions and pollution have reduced, visibility has increased and the air is cleaner. However, as nations emerge from lockdowns, will pollution levels worsen? Potentially.

The world is now at a crossroads. It could either use the lower fuel prices and government stimuli to reduce investments in clean energy and clean tech and return to business as usual. Or, it could create a "green deal" and continue the energy transition. The latter would include: phasing out of fuel subsidies, an incentive to reduce carbon emissions, focusing on energy efficiency investments and decarbonisation of power and road transport.

The IEA, in its Global Energy Review 2020 report, estimates a renewable energy surge by 1% this year, versus a 6% drop in global energy demand. The outlook seems bright: while noting that renewable energy is also a job-creating sector, policy makers should push for more climate-positive policies. As people question the need for travelling to or from work and grow more conscious about their carbon footprint, governments will need to think about agriculture, food and land use; and boost long-term sustainability alongside short-term job creation.

New renewable energy projects in the region are relying more on private funding and therefore likely to continue with "business as usual" in spite of the lower oil prices.

But how should governments remain committed to the energy transition? Phase out fuel subsidies, use these savings to support renewable energy projects and create more space for the private sector to operate in the renewable energy space.

Some of the recommendations to the major oil exporters in the region also include:

1. Export more hydrocarbons and consume less domestically in order to maintain revenues from oil and gas in response to falling prices and government revenues,
2. Take advantage of lower oil/gas prices to finally and fully eliminate internal energy subsidies which distort consumption and have a very high opportunity cost and
3. Elevate the priority and increase the resources dedicated to investment in renewable energy production and consumption locally (a highly competitive global industry vs. hydrocarbons). This can be done by creating space for the private sector to participate and finance this growth (there is an inherent conflict of interest if the governments who control the hydrocarbon production also monopolize the renewable space as evidenced by how little they are spending on renewables Capex).

The presentation slides of Dr. Carole Nakhle can be requested directly from her (carole.nakhle@crystolenergy.com)

For more information about the Clean Energy Business Council and how to join, please email us at: ahmed@cebcmena.com