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THE IMPACT OF THE PANDEMIC ON THE GLOBAL OIL AND GAS MARKET

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Abstract
The coronavirus pandemic has had a significant impact on the global energy market. However, this impact is short-term. The most significant was the acceleration of the decarbonization process and the energy transition: the plans for the development of the energy industry in many developed countries include the intensification of investments and an increase in decarbonization costs. In the long term, this factor is negative for oil demand, neutral or positive for global gas demand.

Key words: Renewable energy sources, coronavirus pandemic, OPEC+ agreement, decarbonization policy

Introduction

The coronavirus pandemic has had a serious impact on the global oil and gas market. As a result, the demand for oil and petroleum products decreased by 8.5% in 2020. At the same time, gas consumption decreased by 2.3%.

The oil market suffered the most as a result of the pandemic: consumption in Europe and the USA decreased by 12.8 and 11.8%, respectively [Energy Information Administration, 2021]. The main factor that had a negative impact on demand was the introduction of restrictions on the movement of citizens, which countries imposed to control the spread of the virus.

The peak of the decline in oil demand occurred in the second quarter of 2020 (-12.6% YoY), when countries began to take measures to combat the pandemic. Restrictions included the closure of schools and restaurants, the cancellation of public events, the transfer of employees to remote operation, as well as the introduction of a curfew. As a result of the introduction of such measures, the overall mobility of the population in the countries decreased, and the demand for gasoline and diesel fuel at the peak of the pandemic fell by 25% [The Joint Organizations Data Initiative, 2021].

The pandemic also had a significant impact on the air travel market: the average number of take-off and landing operations in April 2020 reached 70 thousand (-62% YoY) [RadarBox, 2021], and demand for kerosene fell by 68%, to 2.1 million barrels per day [The Joint Organizations Data Initiative, 2021].

However, starting in July 2020, oil consumption began to recover. The recovery of economic activity and the partial lifting of restrictions associated with an active vaccination process and a decrease in the incidence rate contributed to the growth of demand.

According to the results of 2021, the consumption of oil and liquid hydrocarbons (LCCs) amounted to 96.9 million barrels per day [Energy Information Administration, 2022], an increase of 5 million barrels per day compared to 2020. The estimate of demand for fuel oil for 2022 assumes an increase

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compared to 2019 and amounts to 100.5 million barrels per day.

Thus, the growth in oil demand will continue in 2022. The main factors are associated with the preservation of fairly high growth rates of the global economy, as well as with a decrease in the impact of subsequent waves of coronavirus on demand. Currently, an increase in global GDP by one percentage point increases global oil demand by 0.4–0.5%. Therefore, maintaining the positive dynamics of global economic growth means an increase in demand for oil. In the longer term, it can be expected that the elasticity of oil demand will decrease due to the energy transition and the transition to the use of alternative fuels in the transport sector.

The consequences of the pandemic for the gas market turned out to be less serious than for the oil market: in 2020, gas consumption in the world decreased by 2.3% YoY. At the same time, the reduction in Europe was 2.5%, in the USA – 2.3%, and in China gas consumption increased by 7% [The Joint Organizations Data Initiative, 2021].

The decline in consumption during the economic crisis was less due to the cold winter in the Northern Hemisphere. The decarbonization policy and the gradual abandonment of the use of coal in power generation also had a significant impact on demand. Thus, gas consumption for electricity generation in Europe in 2020 decreased by 2% YoY, while coal use fell by 17% [European Statistical Office, 2021]. In the USA, the use of gas for electricity production in 2020 increased by 2%, and coal decreased by 20%. At the same time, China increased the use of both resources by 6 and 1%, respectively [BP Statistical Review..., 2021].

In 2021, gas consumption in the world increased by 4.6%, to 4.1 trillion cubic meters, which indicates the recovery of the market and the resumption of its growth. The demand for natural gas in the world in 2022 will grow by 0.9% YoY, reaching 4.148 trillion cubic meters [IEA Gas Market Report, Q1-2022, 2022]. However, as in the case of the oil market, the gas market may undergo significant changes as a result of the decarbonization policy pursued by many countries.

The main risk for both markets is not a decline in demand during economic crises (consumption demonstrates the ability to recover fairly quickly after a strong external shock), but an energy transition. A sustained reduction in oil demand may increase competition between producers and become a threat to the OPEC+ agreement. In the face of growing demand, large oil exporters believe that a strategy of cooperation is beneficial for them. With declining demand, producers can switch from cooperation to competition, seeking to monetize their existing reserves as soon as possible, which will lead to an increase in supply and a steady decline in oil prices. The gas market may also suffer due to a faster transition to the use of renewable energy sources.

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