

# 3. Impact of COVID-19 on Oil & Gas Security (OGSS 2021)

## **APERCC Workshop**

The 62<sup>nd</sup> Meeting of APEC Energy Working Group (EWG)  
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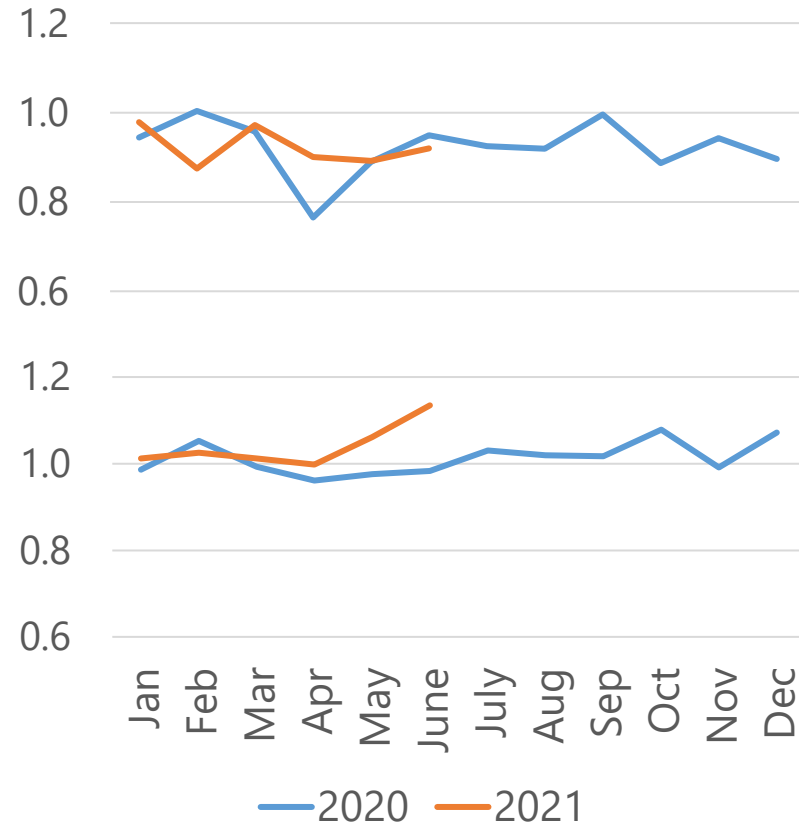


# Overview of APEC oil and gas trends during the COVID-19 pandemic

# Oil demand is reverting close to pre-pandemic levels, gas demand is surging past it, and both are growing

- *COVID-19 caused an unprecedented, but temporary drop in oil consumption.*
- *APEC oil demand is reverting close to 2019 levels and poised to grow past it in the short-term.*
- *The fall in natural gas demand in early 2020 is temporary and partly due to warmer weather.*
- *APEC gas demand is already setting records and will likely continue to grow.*

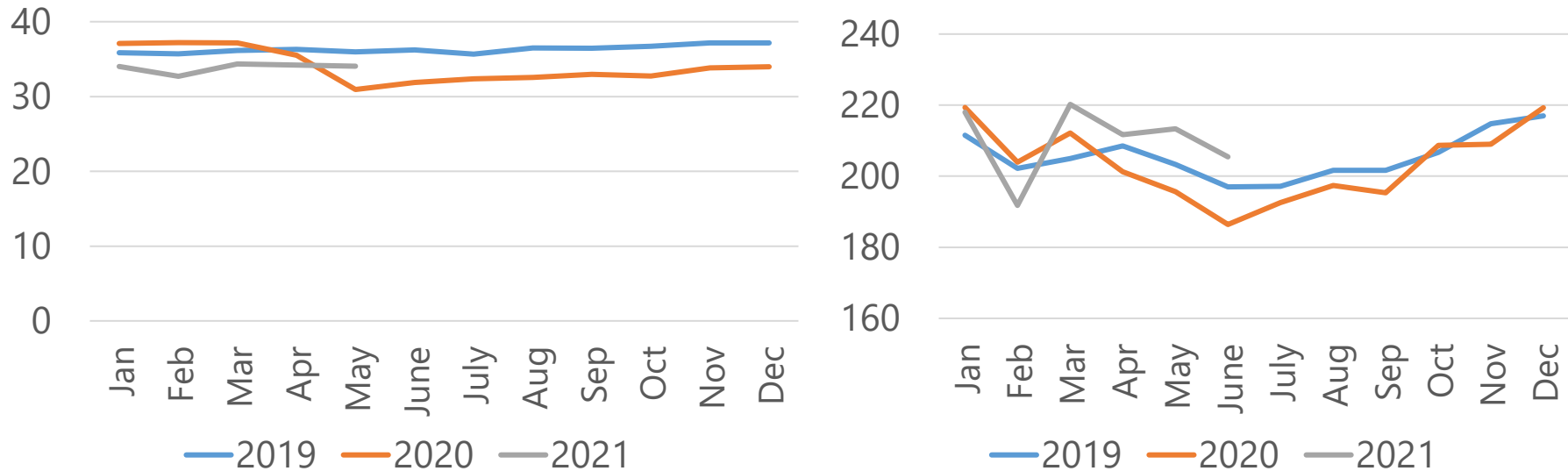
Monthly APEC Oil (upper) and gas (lower) demand, normalized to 2019 levels



Sources: EGEDA, JODI, CEDIGAZ, government agencies

# Investment in oil and gas supply is constrained due to demand uncertainty and shifting investor preferences

Monthly APEC oil production, Mb/d, 2019 to 2021 Monthly APEC gas production, bcm, 2019 to 2021

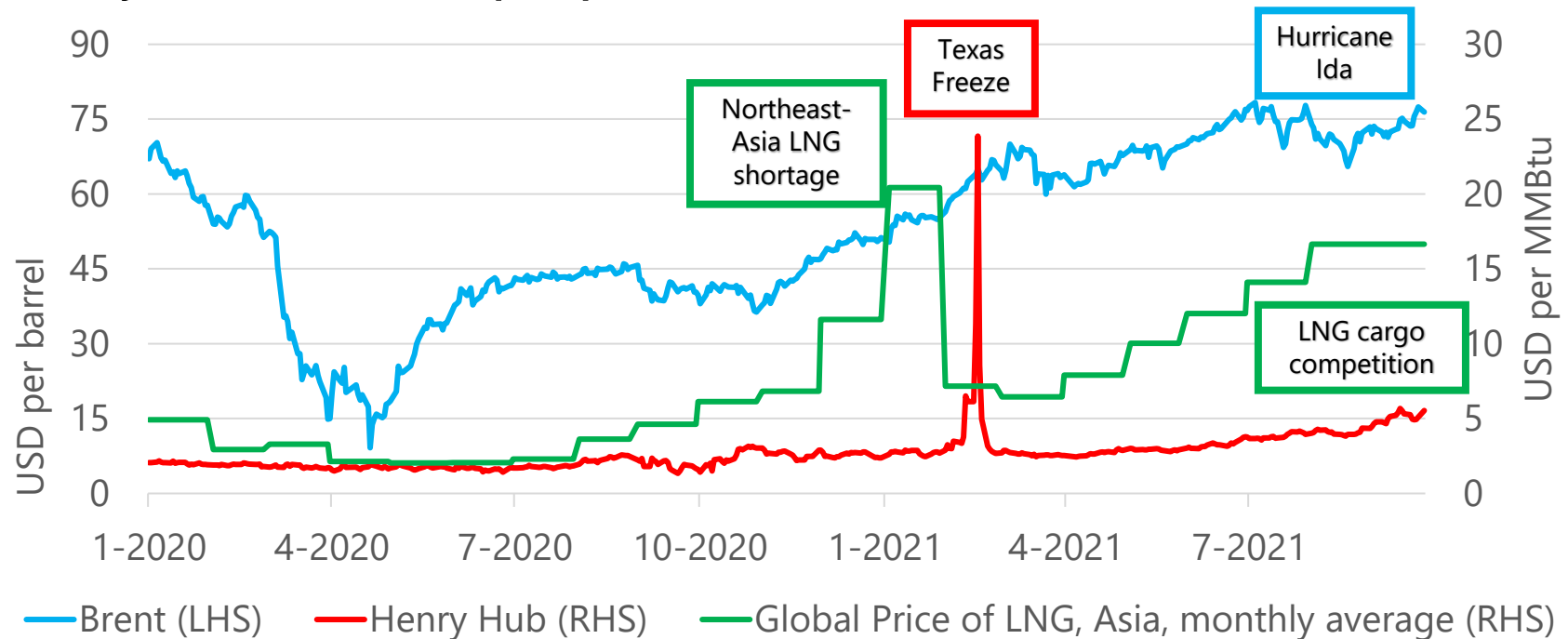


Sources: EGEDA, JODI, CEDIGAZ, government agencies

- *COVID-19 is not a direct cause of supply trends, but it did accelerate the shift in oil and gas equities from growth assets to income-generating assets*
- *Activist investors are diverting higher amounts of capital expenditure away from oil and gas supply and towards the creation of low-carbon business models*
- *Oil production is constrained below pre-pandemic levels, gas production is rising but not enough to alleviate the global tightness in gas markets*

# Supply disruptions appear increasingly likely and some are already occurring.

## Brent, Henry Hub, and LNG spot prices, 2019 to 2021



Source: EIA, IMF (2021)

- *Tight markets are challenging the affordability of both gas and oil, which could derail the COVID recovery*
- *Supply disruptions are manifesting in APEC, particularly in gas markets, and are more likely to occur than before the pandemic*



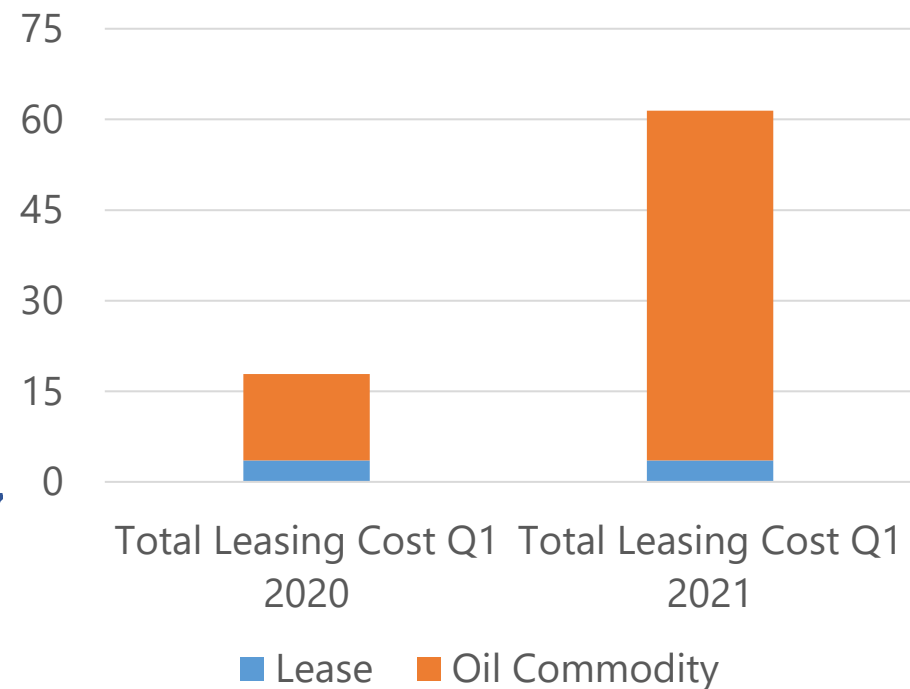


# What can governments do to mitigate the impact of oil and gas disruptions?

# The tried-and-true methods are key to improving APEC oil supply security

- *Action OS1: Dedicate crude oil and petroleum product stocks to a Strategic Petroleum Reserve for energy security purposes*
- *Action OS2: Utilise low oil prices to replenish crude oil and oil product inventories*
- *Action OS3: Encourage the use of leases or tickets from existing SPRs in the APEC region to provide net import coverage in the absence of a domestic SPR.*
- *Action OS4: Mandate stockpiling at commercial operations.*

Estimated Cost of US-AUS SPR Leasing Agreement

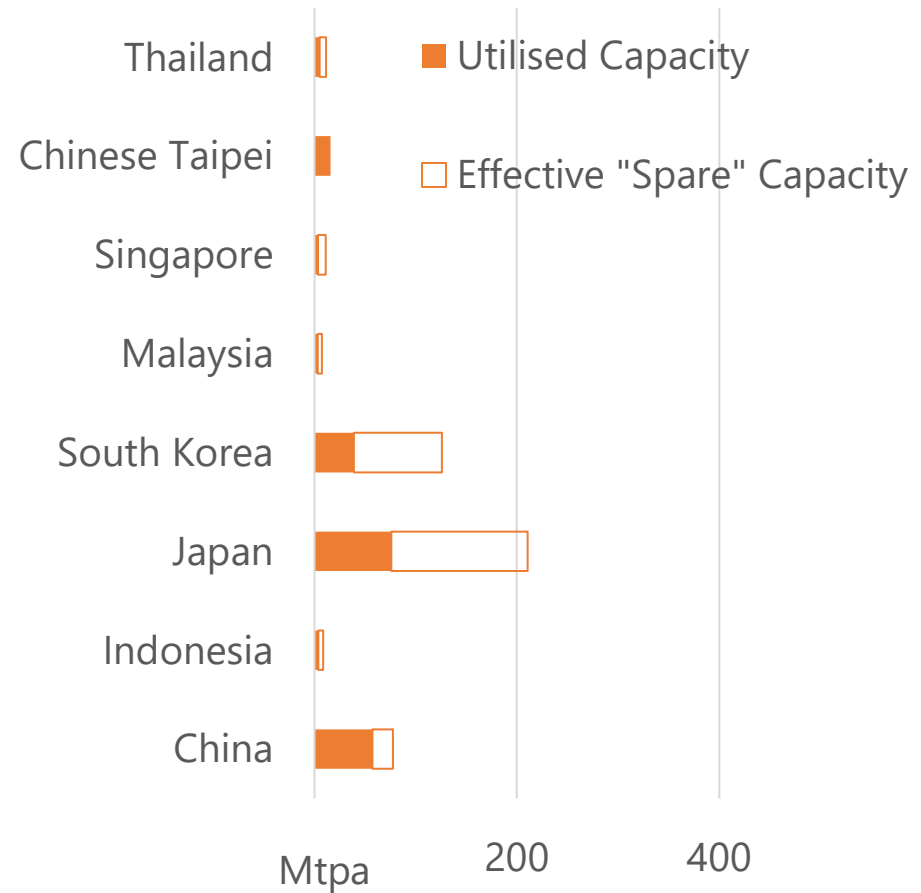


Source: Allens (2021), APERC Calculations

# LNG reloading is an emerging tool to reduce the impacts of LNG disruptions

- *Action GS1: Assess the technical potential for LNG reloading at existing regasification terminals, implement reloading to the technical limits of each facility and include reloading on all new greenfield and expansion projects*
- *Action GS2: Identify collaborative financing opportunities for LNG reloading within and outside APEC economies*
- *Action GS3: Act to remove restrictive regulations or contract clauses that impede LNG reloaders from responding to spot market signals*
- *Action GS4: Evaluate the feasibility of LNG reloaders to top up LNG storage during periods of low prices*

Capacity Utilisation of APEC Asian LNG Importers

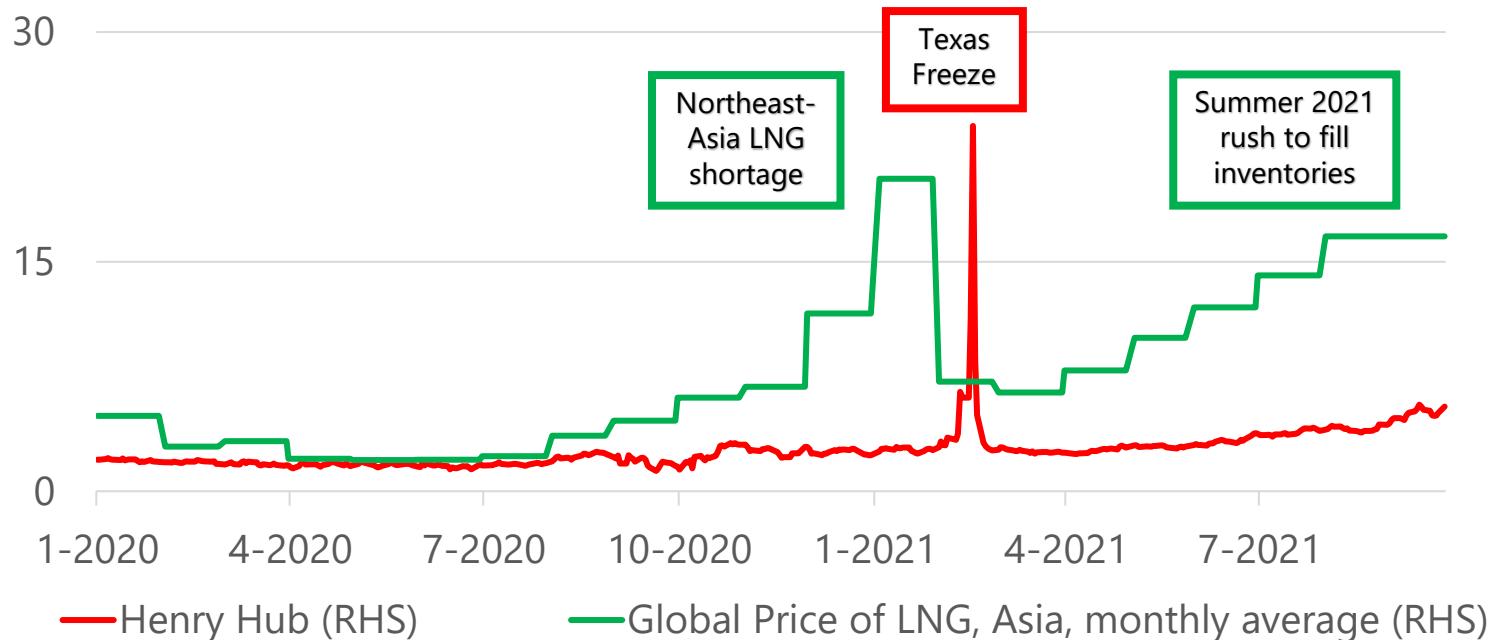


Source: IGU (2020)



# Emerging challenges to sustaining APEC gas supply

Brent, Henry Hub, and LNG spot prices, 2019 to 2021, USD per MMBtu

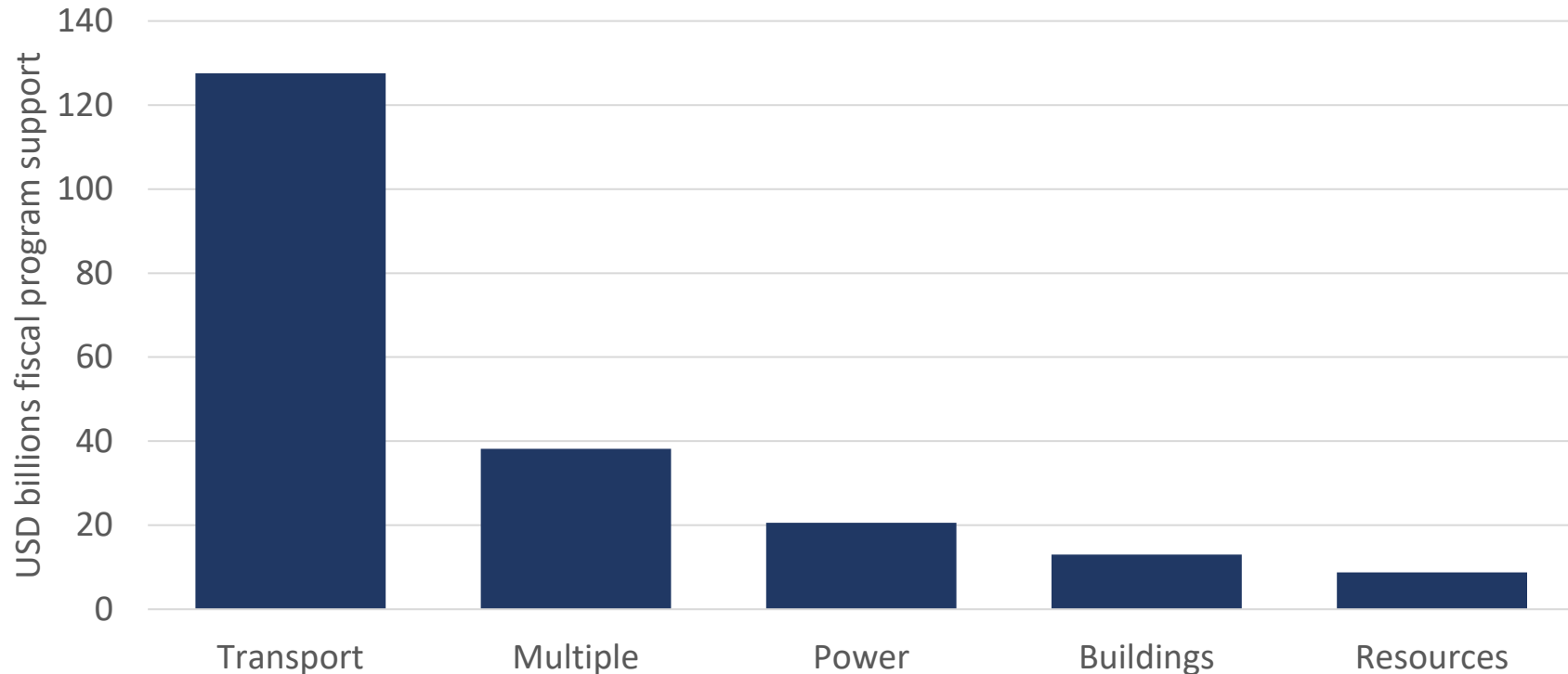


Source: EIA, IMF (2021)

- *Action GS5: Evaluate the benefits and costs of APEC producer-exporters winterising their entire gas supply chain.*
- *Action GS6: Evaluate the feasibility of APEC LNG exporters coordinating their outage schedules and summer maintenance outages to reduce the impact on the global LNG market.*

# COVID recovery packages are generally not improving energy security

Announced fiscal spending on energy sector programs, in 2020 and 2021



Source: Energy Policy Tracker (2021)

- *Action B1: Utilise COVID-19 recovery packages to reduce import dependence*

# Summary

- *Oil demand is reverting close to pre-pandemic levels, gas demand is surging past it, and both are growing*
- *Investment in oil and gas supply is constrained due to demand uncertainty and shifting investor preferences*
- *Disruptions are more likely now than before COVID-19*
- *The tried-and-true methods are key to improving APEC oil supply security*
- *LNG reloading is an emerging tool to reduce the impacts of LNG disruptions*
- *Investing COVID recovery spending into emerging energy could help reduce import dependence*



**Thank you for your kind attention.**

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