

# UNESCO and GECF sign landmark cooperation agreement



Marking a victory for science and education, United Nations Educational, Scientific and Cultural Organisation (UNESCO) and the Gas Exporting Countries Forum (GECF) today signed a Memorandum of Understanding (MoU) to bring the benefits of collaboration to the world at large.

The agreement, taking stock of two years of cooperation, was signed by HE Shamila Nair-Bedouelle, the Assistant Director-General for Natural Sciences at UNESCO and HE Yury Sentyurin, the Secretary General of the 20-member coalition of the leading gas exporting countries of the world. The MoU will serve as a gateway of opportunities between the two entities in the areas of struggle against climate change, natural resources management, and positive developments across the globe, particularly in the Africa region. The partnership will further allow the sides to focus on capacity building, technical support, and shared expertise.

Both signatories commended the UNESCO Cluster Office for the

GCC and Yemen (accredited to Doha) for facilitating the agreement.

“The mobilisation of science for the benefit of society and the planet is now more urgent than ever. We need science and technology, we need access to science and technology, we need to be able to reduce the knowledge gap between different countries across the world, and therefore this partnership with the GECF is really a beacon of hope and light,” said HE Nair-Bedouelle following the virtual signing ceremony.

“The GECF serves as a platform for the science policy interface, underpinning the importance of the exchange of scientific knowledge, experience, and dissemination of information through research and production of global outlooks and statistical bulletins. We at UNESCO are therefore confident that this partnership will further harness the potential of science and technological cooperation to address global challenges, through advocacy and awareness raising at all levels of society and economic sectors towards achieving the sustainable goals of the 2030 Agenda and beyond,” she added.

Scientifically-grounded data and insights are championed at the GECF, whose Secretary General emphasised that technology is key to the envisaged energy transition and climate action such as greenhouse gasses (GHGs) emissions mitigation. The Forum’s speaker added, that “education and science-oriented exercises play a great role in environmental protection with a view to raise awareness and cultivate a “culture of energy responsible behaviour” or “energy scholarship.”

“The GECF is developing technologies, including ones in relation to reduction of GHGs emissions through the GECF Gas Research Institute, recently established in Algeria, and fully dedicated to discovering new technologies and innovations to achieve the ambitious sustainable development goals in front of us,” said HE Sentyurin.

“The GECF’s ambition to steward the gas industry into playing a greater role in environmental protection manifests in our Environmental Knowledge and Solutions initiative. This 12-point agenda focuses on many aspects of our activities,” he added, while referring to the 2019 Malabo Declaration adopted by the GECF Heads of State and Government, which calls on the Forum to use natural gas as the core source of energy in the development programmes and climate change policies of developing countries, such as in Africa, to overcome energy poverty and to mitigate CO2 emissions.

The MoU has been signed against a unique backdrop. The world’s overall energy demand is assumed to grow along with the global economy and population growth. The GECF experts forecast that in order to fulfil this increased demand, the world will likely see a symbiosis of conventional and renewable energies to solve climate issues and to meet the needs of nations for affordable energy. Natural gas is expected to shoulder the bulk of this demand on the back of its attributes of being the most environmentally friendly, affordable, flexible, and abundant fossil fuel.

According to the latest available figures from the GECF Global Gas Outlook 2050, natural gas is projected to become the largest source of primary energy by 2050, from currently 23% to 28%. Along the way, natural gas is expected to play a vital role in decarbonisation options including natural gas-based hydrogen, also known as the blue hydrogen, with carbon capture, utilisation and storage (CCUS) technologies.

The Forum’s Secretary General termed the GECF’s sustainability-related efforts as a “duty to the world”, given that its members collectively represent 71% of the world’s proven natural gas reserves and nearly half of its marketed production.

As an observer organisation to the UNFCCC (UN Framework Convention on Climate Change), the GECF actively participates

in the conference of parties, with the most recent statements made at COP24 and COP25. The Forum is also a regular contributor to the discussions of the UN Economic Commission for Europe (UNECE) Group of Experts on Gas, where it analyses natural gas' leading role in attaining the 2030 Agenda for Sustainable Development.

“This is complemented by our rapidly growing relationships with the G20, BRICS, and others in the spirit of joint action as regards to humanity’s shared mission of sustainable development,” concluded HE Sentyurin.

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## **Oil from US-sanctioned sellers becoming less taboo in Asia**



Bloomberg/Mumbai

Asia's biggest oil importers are testing the waters in the hope that the incoming administration of US President-elect Joe Biden will set the stage for a resumption in crude exports from Iran and Venezuela.

Indian Oil Minister Dharmendra Pradhan said last week the country would like to buy from more producers when asked if he would like to see an easing of White House sanctions on Iran and Venezuela. Tehran, meanwhile, is preparing to raise oil exports, according to President Hassan Rouhani's official website.

There has also been an increase in inquiries from Chinese buyers about purchasing a sludgy type of oil known as bitumen-mix, which is thought to be Venezuelan crude passed off as another grade, according to traders.

Under President Donald Trump, the US pursued an aggressive foreign policy, reinstating sanctions on the Islamic Republic in 2018 and then taking steps to limit Venezuelan crude exports the following year. Shipments from both nations have since slowed to just a trickle, forcing Asian refiners to look for alternatives to the medium-heavy sour crudes from the two countries.

"As a buyer, I would like to have more buying places," Pradhan said at a webinar last Wednesday, adding the country intends to move ahead with a plan to increase the size of its strategic petroleum reserves.

While Trump is stepping up foreign sanctions as his term winds down, the hope among Asian buyers is that Biden will seek to restart the Iranian nuclear deal and also take a softer line on Venezuela when he takes office next month.

However, Biden's task looks to have become more difficult after Iran's top political chamber gave final approval to a bill forcing President Hassan Rouhani to end international nuclear inspections unless the US lifts key sanctions by February. That will give the Biden team just weeks to make a diplomatic breakthrough.

If a Biden presidency does lead to a resumption in Iranian and Venezuelan oil exports, the new supply will likely cause a

further headache for the Opec+ alliance and would also reshape crude flows to Asia. The popularity of similar-quality grades from Canada and Iraq might wane, according to Asian traders. Tehran will take measures “to prepare resources and oil-industry equipment for the production and export of oil in line with current capacity within the next three months,” according to President Rouhani’s website.

India halted imports from Iran, previously its third-largest oil supplier, in mid-2019 after the expiration of US exemptions. The nation imported 7.65mn tonnes of Venezuelan crude from January to October this year, compared with 15.9mn tonnes in 2019.

China last imported Venezuelan oil in September 2019, customs data show. It purchased around 3mn tonnes of Iranian oil in first 10 months of this year, or 72,000 barrels a day, down 77% from the same period in 2019.

Chinese crude imports from Malaysia, meanwhile, have been a lot higher than usual since the start of 2019. Much of those volumes may have come from ship-to-ship transfers in Malacca Strait, a tactic to mask the origin of cargoes.

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**Oil prices face uphill struggle in 2021 despite vaccine progress: Reuters poll**



Oil prices will struggle to gain upward traction next year as demand remains in the grip of the coronavirus pandemic despite growing optimism over vaccines and a likely extension of output cuts by top producers, a Reuters poll showed on Monday.

The poll of 40 economists and analysts forecast Brent would average \$49.35 a barrel next year, little changed from last month's \$49.76 outlook. The benchmark has averaged about \$42.50 per barrel so far in 2020.

"The global oil demand outlook remains precarious given the resurgence of the pandemic and resulting lockdowns in Europe and the U.S.," said Marshall Steeves, energy markets analyst at IEG Vantage.

"This will likely remain the case through the first quarter of 2021 if not the second, thus OPEC+ faces muted demand for their oil."

(Graphic: Brent and WTI price forecast for 2021 )

Rising Libyan output also posed a headwind, analysts said, as the market focuses on a meeting on Nov. 30-Dec. 1, when the

Organization of the Petroleum Exporting Countries, Russia and other producers, a grouping known as OPEC+, decide strategy.

OPEC+ is leaning towards delaying the group's existing plan to boost output in January by 2 million barrels per day (bpd) to support a market hammered by the pandemic..

Although an accelerating COVID-19 vaccine race has raised hopes for a quicker economic rebound, analysts said a resultant fillip to demand may only materialise in the second half of 2021.

Global demand was seen growing by 5.1 million to 6.3 million bpd in 2021, led by China.

"Currently the Achilles heel on the demand side is the aviation sector. Business-related travel could still be low next year, as companies may make greater use of video conference calls," said UBS analyst Giovanni Staunovo.

The survey forecast U.S. WTI crude futures would average \$46.40 a barrel in 2021, versus October's \$46.03 consensus.

"U.S. rigs are coming back to life but a Joe Biden administration should derail anything that allows for a massive upswing with production," said Edward Moya, senior market analyst at OANDA.

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## **Opec faces seismic demand**



# split as group plots next move



Bloomberg/London

As Opec+ ministers gather virtually this week, the city that traditionally hosts their meetings will be locked down.

But while the Austrian capital provides a dramatic example of how the second wave of the pandemic is shutting down economies in Europe and the US, the global picture is more nuanced.

In Asia, the situation is almost the opposite to that of Vienna. The streets in India were full during the recent celebration of Diwali; China's Golden Week holiday saw millions take cars, trains and even planes to visit relatives across the country.

The east-west divide is an added conundrum for Opec+, which on November 30-December 1 needs to decide whether to delay a production increase slated for January – and if so, for how long. And there's another crucial divide in the global oil market: while gasoline and diesel demand have recovered to about 90% of their normal level, consumption of jet fuel languishes at about 50%.

“The size of the shock and the unevenness of its impacts imply a recovery process which is far from smooth,” said Bassam Fattouh, the head of the Oxford Institute for Energy Studies. Saudi Arabia is using both carrot and stick to talk other members of the oil group into defending prices at Thursday’s ministerial meeting.

In private, Opec+ delegates talk about the imbalance in the recovery, both geographically and between refined products. Increasingly too, they talk about another segmentation: crude oil quality. The market for the denser more sulphurous crude, called heavy-sour, is tight, mostly due to production cuts big producers. But the market for so-called light-sweet is glutted, in part because Libyan barrels have come back to the market after a ceasefire, and European refiners are consuming less North Sea crude.

All those factors make the deliberations of Opec+ ministers trickier. And they have just one blunt tool at their disposal: raising or cutting overall production. Opec+ nations do not target gasoline or jet-fuel production, but just crude.

There’s also a geographical handicap: most of their oil goes to Asia, where demand is strong, rather than Europe and America, where it’s weaker. That means they can do little to address the glut where it matters. Even the quality is a problem: Opec pumps mostly heavy-sour crude, and can do relatively little to trim the excess of light-sweet crude.

There is some consolation. While the recovery in oil demand that started in May stuttered in October and November as the second wave took hold, it wasn’t the same hit to the market as earlier this year. The lockdowns in Europe aren’t as severe as the first wave, and demand in Asia is surging – not just in China, but also in India, Japan and South Korea.

High frequency data for road usage shows a decline in early November of about 30% from pre-Covid levels, compared to nearly 70% in late March and early April, according to an index compiled by Bloomberg News. The most recent data suggests that road fuel demand bottomed out around November 15, and has been recovering since. With European nations

easing lockdowns in the run-up to Christmas, demand is likely to recover further.

Pieced together, this all means the market isn't as bad as it looked just a few weeks ago. Oil prices are reflecting the more positive tone: Brent crude has rallied well above \$45 a barrel, and the shape of the curve has flipped, with nearby contracts trading at a premium to later ones. That dynamic, known as backwardation and traditionally a bullish signal, means that demand is running above supply.

The physical market, where actual barrels change hands, is also showing signs of strength: the favourite crude varieties of Chinese refiners are commanding rising premiums. Take ESPO crude of Russia, a grade that Chinese independent refiners, known as teapots, like to buy. In the most recent tenders, it has changed hands at \$2.85 a barrel above its benchmark, up from 55 cents in mid-October.

Beyond the next quarter, the outlook improves further.

Many are already hopeful about the impact of virus vaccines on oil demand. If they are right, by mid-year, when Opec is likely to be meeting again, the streets of Vienna will be once again full of tourists, often perplexed to see oil ministers followed by packs of television cameras across the Austrian capital. The group is tentatively planning to hold its bi-annual international oil seminar, a two-day festival of the industry, at the Imperial Hofburg Palace in June 2021.

"Vaccine efficacy and availability point to a large enough recovery in oil demand next year to allow Opec to achieve both a rebalancing of excess inventories as well as increase production sharply," said Damien Courvalin, oil analyst at Goldman Sachs Group Inc.

For now though, Opec+ still has work to do. If the group wants to keep draining inventories accumulated earlier this year, it needs to keep the market in deficit, rather than simply balance supply and demand. With Libyan output surging back, Opec's own economists believe that global inventories would increase by about 200,000 barrels a day during the first quarter of 2021 if the group increases output as scheduled in

January. If it delays the hike by three months, then stocks would instead drain by about 1.7mn barrels a day between January and March, a similar amount to what it expects in the fourth quarter of 2020.

“The job is far from done,” said Gordon Gray, global head of oil and gas equity research at HSBC Holdings Plc.

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## **Iraq voices frustration with Opec days before crunch meeting**



Bloomberg/London

Iraq's deputy leader has criticised Opec just days before the oil group makes a crucial decision on whether to raise output. Opec should take members' economic and political conditions into account when deciding production quotas rather than adopting a “one-size-fits-all” approach, according to Ali

Allawi, Iraq's Finance and Deputy Prime Minister.

"We have reached the limit of our ability and willingness to accept a policy of one size fits all," he said this week during a virtual conference hosted by UK think-tank Chatham House. "It has to be more nuanced and it has to be related to the per-capita income of people, the presence of sovereign wealth funds, none of which we have. We are beginning to articulate this position."

While Allawi said he wasn't speaking on behalf of the Ministry of Oil, which decides on Opec matters, his comments are yet another manifestation of rifts within the group before its next meeting on November 30. Nigeria also has tried to get some oil blends excluded from its quota.

Iraq, the group's biggest producer after Saudi Arabia, is reeling from the coronavirus-triggered collapse in oil prices. While all members have suffered, Iraq's position is about the worst of the lot, with the government struggling to pay teachers and civil servants, and protesters taking to the streets en masse.

Opec+, an alliance between the Organization of Petroleum Exporting Countries and others such as Russia, meets a day later, on December 1. It agreed in April, at the height of the pandemic, to cut crude output by almost 10mn barrels daily. Opec imposed quotas on 10 of its 13 members, exempting Iran, Libya and Venezuela because of their economic and political turmoil.

Opec+ eased some of those curbs in August. It was meant to reduce the cuts by another 2mn barrels daily at the start of January, but renewed lockdowns in major economies including the US and Europe mean that some members may push for a delay. Brent crude prices have more than doubled since April, but are still down around 26% this year at \$48.50 a barrel.

Iraq has already breached its quota on several occasions. It has promised to compensate for its over-production. This week, in an unprecedented move, Iraq sought an upfront payment of about \$2bn in exchange for a long-term crude-supply contract.

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# China is set to eclipse US as world's biggest oil refiner



Bloomberg/Beijing

Earlier this month, Royal Dutch Shell pulled the plug on its Convent refinery in Louisiana. Unlike many oil refineries shut in recent years, Convent was far from obsolete: It's fairly big by US standards and sophisticated enough to turn a wide range of crude oils into high-value fuels. Yet Shell, the world's third-biggest oil major, wanted to radically reduce refining capacity and couldn't find a buyer.

As Convent's 700 workers found out they were out of a job, their counterparts on the other side of Pacific were firing up a new unit at Rongsheng Petrochemical's giant Zhejiang complex in northeast China. It's just one of at least four projects underway in the country, totalling 1.2mn barrels a day of crude-processing capacity, equivalent to the UK's entire fleet.

The Covid crisis has hastened a seismic shift in the global refining industry as demand for plastics and fuels grows in China and the rest of Asia, where economies are quickly rebounding from the pandemic. In contrast, refineries in the US and Europe are grappling with a deeper economic crisis while the transition away from fossil fuels dims the long-term outlook for oil demand.

America has been top of the refining pack since the start of the oil age in the mid-nineteenth century, but China will dethrone the US as early as next year, according to the International Energy Agency. In 1967, the year Convent opened, the US had 35 times the refining capacity of China.

The rise of China's refining industry, combined with several large new plants in India and the Middle East, is reverberating through the global energy system. Oil exporters are selling more crude to Asia and less to long-standing customers in North America and Europe. And as they add capacity, China's refiners are becoming a growing force in international markets for gasoline, diesel and other fuels. That's even putting pressure on older plants in other parts of Asia: Shell also announced this month that they will halve capacity at their Singapore refinery.

There are parallels with China's growing dominance of the global steel industry in the early part of this century, when China built a clutch of massive, modern mills. Designed to meet burgeoning domestic demand, they also made China a force in the export market, squeezing higher-cost producers in Europe, North America and other parts of Asia and forcing the closure of older, inefficient plants.

"China is going to put another million barrels a day or more on the table in the next few years," Steve Sawyer, director of refining at industry consultant Facts Global Energy, or FGE, said in an interview. "China will overtake the US probably in the next year or two."

But while capacity will rise in China, India and the Middle East, oil demand may take years to fully recover from the damage inflicted by the coronavirus. That will push a few

million barrels a day more of refining capacity out of business, on top of a record 1.7mn barrels a day of processing capacity already mothballed this year. More than half of these closures have been in the US, according to the IEA.

About two thirds of European refiners aren't making enough money in fuel production to cover their costs, said Hedi Grati, head of Europe-CIS refining research at IHS Markit. Europe still needs to reduce its daily processing capacity by a further 1.7mn barrels in five years.

"There is more to come," Sawyer said, anticipating the closure of another 2mn barrels a day of refining capacity through next year.

Chinese refining capacity has nearly tripled since the turn of the millennium as it tried to keep pace with the rapid growth of diesel and gasoline consumption. The country's crude processing capacity is expected to climb to 1bn tons a year, or 20mn barrels per day, by 2025 from 17.5mn barrels at the end of this year, according to China National Petroleum Corp's Economics & Technology Research Institute.

India is also boosting its processing capability by more than half to 8mn barrels a day by 2025, including a new 1.2mn barrels per day mega project. Middle Eastern producers are adding to the spree, building new units with at least two projects totalling more than a million barrels a day that are set to start operations next year.

One of the key drivers of new projects is growing demand for the petrochemicals used to make plastics. More than half of the refining capacity that comes on stream from 2019 to 2027 will be added in Asia and 70% to 80% of this will be plastics-focused, according to industry consultant Wood Mackenzie.

The popularity of integrated refineries in Asia is being driven by the region's relatively fast economic growth rates and the fact that it's still a net importer of feedstocks like naphtha, ethylene and propylene as well as liquefied petroleum gas, used to make various types of plastic. The US is a major supplier of naphtha and LPG to Asia.

These new massive and integrated plants make life tougher for



their smaller rivals, who lack their scale, flexibility to switch between fuels and ability to process dirtier, cheaper crudes.

The refineries being closed tend to be relatively small, not very sophisticated and typically built in the 1960s, according to Alan Gelder, vice president of refining and oil markets at Wood Mackenzie. He sees excess capacity of around 3mn barrels a day. "For them to survive, they will need to export more products as their regional demand falls, but unfortunately they're not very competitive, which means they're likely to close."

Global oil consumption is on track to slump by an unprecedented 8.8mn barrels a day this year, averaging 91.3mn a day, according to the IEA, which expects less than two-thirds of this lost demand to recover next year.

Some refineries were set to shutter even before the pandemic hit, as a global crude distillation capacity of about 102mn barrels a day far outweighed the 84mn barrels of refined products demand in 2019, according to the IEA. The demand destruction due to Covid-19 pushed several refineries over the brink.

"What was expected to be a long, slow adjustment has become an abrupt shock," said Rob Smith, director at IHS Markit.

Adding to the pain of refiners in the US are regulations pushing for biofuels. That encouraged some refiners to repurpose their plants for producing biofuels.

Even China may be getting ahead of itself. Capacity additions are outpacing its demand growth. An oil products oversupply in the country may reach 1.4mn barrels a day in 2025, according to CNPC. Even as new refineries are built, China's demand growth may peak by 2025 and then slow as the country begins its long transition toward carbon neutrality.

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# Opec+ gets scant relief from vaccine as ministers meet



Bloomberg/London

Oil markets may be cheering the prospects of a coronavirus vaccine, but Opec+ can't celebrate. Crude prices have rallied to a 10-week high on hopes that Pfizer Inc and BioNTech SE's breakthrough could soon revive the flights, car journeys and other economic activity that underpin fuel consumption.

Nonetheless, the alliance of producers is discussing a delay of the supply boost they'd hoped to make in January. Oil demand is currently suffering a fresh blow from a resurgence of the pandemic.

Ministers are focused on a postponement of three to six months, according to delegates familiar with the talks who asked not to be identified. They'll hold an interim meeting on Tuesday to review the market, then make a final decision in a further two weeks.

## **Frightening pullback**

"This is the wrong time to be increasing crude supply," Bob

McNally, president of consultant Rapidan Energy Group and a former White House official, said in a Bloomberg television interview. "They really almost have no choice now but to postpone. The demand pullback in Europe is frightening."

While the vaccine progress relieves some of the pressure on the Organization of Petroleum Exporting Countries, it won't provide a significant boost to demand until the second half of 2021 next year, according to the International Energy Agency in Paris. Economic fallout from the latest wave of lockdowns will linger, Opec said in a report. The 23-nation alliance had intended to ease some of the unprecedented supply curbs introduced in May to offset the collapse in demand, restoring 2mn barrels a day of output at the start of next year. They made a similar increase over the summer as the global economy recovered, and hoped that the trend would continue.

But in recent weeks Opec+ members have acknowledged those aspirations look unfeasible. Instead, the producers look set to keep about 7.7mn barrels a day – roughly 8% of global supply – off-line for a little longer.

### **Critical cut**

Deferring the supply boost – and thus supporting prices – may be critical for Opec+ nations, many of which need oil prices far above the current level of \$43 a barrel in order to cover government spending. It would also throw a lifeline to the wider industry, from majors like Exxon Mobil Corp to independent companies in the US shale patch.

Saudi Arabian energy minister said on November 9 the producers can "tweak this agreement" as required. Algeria, which holds Opec's rotating presidency, and group secretary-general Mohammad Barkindo made similar remarks.

Even Russia, usually reluctant to forego oil sales, has signaled support. President Vladimir Putin said on October 22 that delay was an option, and even gestured at the possibility of making deeper production cuts if necessary. Further curbs don't appear needed so far, delegates say. "The lockdowns in Europe and what that will mean for demand will be very much on

their mind,” Daniel Yergin, vice chairman at IHS Markit, said in a Bloomberg Television interview. “The easiest thing for them to do, and as President Putin signalled, is to roll it over.”

While the Joint Ministerial Monitoring Committee that convenes on Tuesday won't set policy, Riyadh and Moscow may give some insight into their thinking before the main ministerial meetings on November 30 to December 1.

### **Supply headache**

Faltering demand isn't the only headache for the alliance, which is also having to reckon with a surprising increase in supply from one of its own members.

Libya, which is exempt from the agreement to restrain production, has revived output to the highest level in almost a year after a truce in its civil war. The North African nation tripled supply to 450,000 barrels a day last month, and is now pumping above 1 million a day.

The case for extending curbs, though persuasive, could still run into opposition.

One flash-point may be the millions of barrels of outstanding cuts still due from some members, which were supposed to be completed by the end of the year.

Opec+ nations that flouted their output quotas in the initial months of the agreement, such as Iraq and Nigeria, have been tasked with “compensation cuts.” After making some tentative efforts at these, Baghdad defiantly ramped exports back up last month.

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## **Mediterranean crisis calls**

# for ‘civilized solution’, energy expert tells EU-Arab gathering



*‘Do we want the benefits of our own rightful shares more than we want to deny the same benefits to our neighbors?’*

ATHENS, Greece: The latest legal and technological tools can resolve rival claims in the Mediterranean without anyone firing a shot, a veteran of the region’s energy industry told a conference in Athens on Monday.

“We have both the legal mechanisms and the high-precision mapping technologies to draw up fair and equitable boundaries at sea,” Roudi Baroudi said in a speech to the 5<sup>th</sup> European Union Arab World Summit. “That means that countries in the Mediterranean region can settle their differences amicably, setting aside the costly and ultimately self-defeating ways of war.”

Appearing via Zoom from Doha, Qatar, Baroudi said the region had a long history of spawning great civilizations, but that each of these had squandered their good fortune by make war on their neighbors.

Thanks to huge deposits of natural gas having been found beneath the Mediterranean, he noted, “the region faces another crossroads”, largely because “the vast majority of maritime boundaries in the Mediterranean remain unresolved.” With neighboring states laying claim to the same undersea real estate, Baroudi said the resulting “patchwork of claims and counter-claims” only served to hamper all parties by jeopardizing their respective offshore oil and gas activities.

With more than four decades in the business – including significant experience in both the public and private sectors – Baroudi has become a leading proponent of the East Med’s emergence as a major energy producer. Having long argued that safe and responsible exploitation of the resource in question would allow regional countries to make historic gains, both at home and abroad, his most recent interventions have focused on how to draw fair and equitable boundaries at sea. In fact, his book “Maritime Disputes in the Eastern Mediterranean: The Way Forward” is widely regarded as the most authoritative guide to the current situation.

Currently serving as CEO of Energy and Environment Holding, an independent consultancy based in Doha, Baroudi said all parties need to be honest with themselves by answering single question: “do we want the benefits of our own rightful shares more than we want to deny the same benefits to our neighbors?”

Those that want to focus on getting their share, he argued, need to put their faith in the United Nations Convention on the Law of the Sea.

*Roudi Baroudi is CEO of Energy and Environment Holding, an independent consultancy based in Doha.*

*He also is the author of “Maritime Disputes in the Eastern Mediterranean: the Way Forward”, published earlier this year by the Transatlantic Leadership Network and distributed by the Brookings Institution Press.*

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# 5th EU- Arab World Summit – Maritime Borders in the Mediterranean: the Cradle of Civilization Deserves a Civilized Solution



DELPHI  
ECONOMIC  
FORUM

ROUDI BAROUDI

CEO, Energy & Environment Holding

الاقتصاد والعمل  
Al-Iktisad wal-Aamal

# Oil recovery waits for international flying to return



Jet fuel consumption remains the hardest-hit section of the global oil market as passengers avoid air travel because of the pandemic and government travel restrictions.

The specific problems of the jet market explain why refinery margins for closely related distillates such as diesel are being hit much harder than benchmark oil prices.

Jet fuel's travails have helped push distillate margins to their lowest levels for more than a decade and are undercutting refinery demand for crude.

Sustained recovery in distillate margins and crude oil prices will therefore depend on a wider resumption of cross-border aviation.

But an early resumption of long-haul flights is looking less likely than a few months ago, given the resurgence of



coronavirus cases in many parts of the world.

So an upturn in jet consumption, and with it distillate margins and crude oil prices, depends on one or more of three factors: early deployment of an effective COVID-19 vaccine; alternative methods of infection control (such as rapid testing or improved contact tracing and isolation); or lifting air travel restrictions with or without a vaccine.

Quarantines and other infection controls have mostly been imposed on a national or occasionally continental basis, and on potentially infective passengers rather than manufactured products.

As a result, passenger aviation has been hit much harder than freight, and within the passenger sector, long-haul intercontinental flights have been more severely affected than short-haul and domestic services.

## **Domestic markets rebound**

Globally, air freight tonne-kilometres were down just 18 per cent in June compared with passenger revenue-kilometres down 87 per cent, according to the International Civil Aviation Organisation.

In Hong Kong, which has adopted some of the strictest quarantine requirements, air cargo volumes were down just 2 per cent in August from a year earlier while passenger numbers, excluding transit passengers, were down 99 per cent.

On the passenger side, countries with a large domestic market, including the United States and China, have seen a stronger rebound than countries that depend on international departures and arrivals such as Britain.

China's passenger aviation volume was down by about 40 per cent in August compared with the same month a year earlier, based on passenger-kilometres flown, according to the National

Bureau of Statistics.

By contrast, Heathrow airport reported passenger numbers were down by 69 per cent in August for domestic and short-haul flights within Europe, and down by 92 per cent for long-haul flights outside Europe.

Business-related travel has been hit harder than leisure journeys as a result of the cancellation of conferences and in-person customer visits.

Most aviation experts expect business travel to recover more slowly than leisure journeys over the next 12 to 24 months, mirroring the experience after previous business cycle downturns.

The recession's lingering effects will encourage corporate managers to focus on cost control even once coronavirus restrictions are lifted, and discouraging discretionary flights is the easiest target for short-term savings.

## **Jet fuel consumption takes off**

Global jet fuel consumption was about 8 million barrels a day in 2019, or about 8 per cent of global petroleum consumption, according to BP.

But it has been one of the fastest-growing sections of the market over the past decade, with consumption growing by almost 2.7 per cent a year between 2009 and 2019, compared with 1.6 per cent for all petroleum products.

While jet consumption remains a relatively small component of the total petroleum market, it is much larger compared with the market for other similar middle distillates.

In 2019, jet fuel accounted for 22 per cent of worldwide consumption of middle distillates, a group of fuels which also includes diesel, heating oil, gasoil and kerosene, and

totalled about 36 million barrels a day.

The pandemic-driven slump in aviation, especially fuel-hungry long-haul passenger aviation, has cut jet consumption by more than half.

Even with its domestic market, jet fuel consumption in the US is still down by more than 55 per cent compared with levels from a year ago, according to weekly estimates from the US Energy Information Administration.

Jet fuel, with strict quality specifications, is normally a premium product and makes a big contribution to refinery margins and profitability.

Following the pandemic, however, refiners have been forced to dump unwanted jet fuel into the broader and less-profitable pool for other middle distillates.

The diversion of surplus jet fuel has contributed to oversupply and bloated stocks of other middle distillates and is weighing on refining margins.

In turn, oversupply of distillates and poor margins are incentivising refineries to limit their crude purchases and processing, holding back wider recovery in the oil market.