**So here we are at the back end of April and there’s a reasonable chance you may have already spotted that half the population of the planet is in lock down as a result of the Covid-19 pandemic.**

**That’s having a bit of an impact on this lot.**

**They are of course some of the most valuable and most powerful companies on earth and right now, as a result of the unprecedented reduction in global energy use that the lock down has caused,**

**they are all in a world of pain!**

**Every day our newspapers and television networks bring us a constant stream of Coronavirus statistics, most of which are based on this data published and updated hourly by the Johns Hopkins University.**

**As of Friday 24th April 2020, the dashboard shows xxmillion people infected with the virus worldwide.**

**But that’s just the officially recorded number.**

**These companies need something a bit more reflective of real-world data if they’re going to stand any chance of working out how to get out of their current predicament.**

**So, on the 15th of April, Norwegian Energy Consultancy RYSTAD ENERGY published this report specifically for the benefit of the Oil and Gas industry.**

**The report’s analysis showed that at the time of publication there were more like 39 million people infected worldwide.**

**23 million of those infected were in Europe and more than 10 million were in North America. And as we approach the month of May, those numbers are still rising fast with no realistic prospect of any kind of widespread easing of restrictions any time soon, despite what Mr Trump might say.**

**The Rystad report also shows that demand for oil has so far dropped by 27 percent year on year, from 100 million barrels a day to just under 73 million barrels.**

**The International Energy Agency is warning that the industry is experiencing a shock like no other in its history, and environmental groups like Greenpeace are suggesting we may even be entering the final decline of oil.**

**So, will 2020 go down in history as nothing more than an inconvenient blip in the growth charts of corporate behemoths like these?**

**Or could the current collapse in the oil market be increasing the likelihood that fossil fuel producers may find themselves saddled with what traders on the financial markets refer to as Stranded Assets?**

**Hello and Welcome to Just Have a Think**

**If ever there was a time to use the somewhat hackneyed phrase**

**“A Perfect Storm’, then perhaps now might be that moment for the oil industry.**

**The end of restraints on oil production earlier this year, mainly from Saudi Arabia and Russia, caused a huge glut of supply in the world market.**

**That’s normally not a big problem for the oil producers, they just lower the prices and that generally stimulates higher consumption.**

**Hey presto – equilibrium restored.**

**It’s been like a carefully controlled income tap for the oil producers for the best part of a century, and its why oil stocks have traditionally been seen as a safe haven for financial market traders and long-term investment portfolios like pension funds.**

**But that fit of petulant over supply by two of the world’s largest oil producing nations came just before the onset of a global pandemic that drastically reduced demand for fuel, especially for road vehicles and air transport, as more than 3 billion human beings got locked down and global economic activity came to a grinding halt.**

**As demand plummeted, the entire supply chain of oil refining, freight, and storage began to seize up, making it increasingly difficult to push new supply into the system**.

**So, the oil accumulated in pipelines, on oil tankers and in storage facilities until eventually investors saddled with the physical stock had to begin offering to pay people to take it off their hands.**

**That’s why we witnessed the extraordinary spectacle this week of West Texas Intermediate crude oil futures for May hitting the historic low of minus thirty-seven dollars.**

**That negative number was in all honesty probably a one off. The price almost immediately went back into positive territory for June deliveries and in any case the more generally accepted barometer of world market status is actually the price of a barrel of Brent Crude.**

**But even that commodity has been languishing around the 20-dollar mark for the first time since the turn of the century.**

**Those numbers are unprofitable and unsustainable for the vast majority of oil producers.**

**According to the International Energy Agency, even based on a Brent Crude price of 25 dollars a barrel, there’s about 5 million barrels of oil coming out of the ground every day that isn’t being sold for enough to cover the cost of extraction.**

**That means those businesses are right now losing money on every barrel of oil they produce.**

**And the size of the loss depends on who you are. Even the big state operators are not immune.**

**According to Michael Liebrich of Bloomberg New Energy Finance, the fiscal break-even for Saudi Arabia is around 80 dollars a barrel, meaning its foreign exchange reserves might only be able to cope with rock-bottom oil prices for a couple of years.**

**By contrast, Russia’s break-even point is far lower at 40 dollars a barrel. It also has a much more diversified economy, which means it could probably endure these low prices for as long as a decade.**

**So, on the face of it, the current oil war between those two nations is not one that Saudi Arabia has any chance of winning.**

**But Professor Bernard Haykel of Princeton University told the Guardian that he thinks there might be some other method in the apparent madness of the Saudi position.**

**Crown Prince Mohammed Bin Salman may be many things but he’s no fool. He can see the unstoppable global clean energy transition approaching and he’s desperate to cash out of the game while he still has the chance to throw his kingdom’s fortunes into longer term safer investments.**

**Professor Haykel argues that the Saudi production increase was aimed at grabbing market share and killing off the US shale boom once and for all.**

**If they could manage that says Haykel, then Bin Salman may well start to look for a final exit strategy that gets his nation out of oil production for good.**

**But it’s not just nation producers that are suffering. Every producer is feeling the pain one way or another.**

**Goldman Sachs are estimating that oil wells producing around a million barrels a day may have already been shut down because the price of oil is now lower than the cost of shipping it. And they say that number is growing “by the hour”.**

**Goldman’s analysis of the American giant Chevron suggests THAT company needs a market price of 50 dollars a barrel to cover its costs and meet its dividend forecast.**

**Exxon Mobil is in an even more precarious position, at about 70 dollars a barrel for break even.**

**At the end of March Exxon announced it was cutting production at its Baton Rouge refinery, the company’s second largest in the U.S., because poor demand has filled up storage tanks.**

**The company also cut 1,800 contractors from the site.**

**Depending on how long they think the crisis will last, some of the more robust producers may continue pumping oil at a loss if they calculate that the costs of shut down and subsequent start up at a later date are higher than the operating losses from keeping the oil flowing. But you need very deep pockets or very understanding investors for that strategy.**

**Of course, if those companies get away with it then they may see weaker rivals go out of business, which in this cut-throat, alpha male, dog eat dog industry, would improve their own chances of survival.**

**As professor Haykel pointed out, many of those weaker rivals are likely to be found in the United States fracking industry. Most shale operators have found it increasingly difficult to turn a profit in recent years.**

**In this March 2020 article, one of the original co-founders of Greenpeace International, Rex Weyler, argues that the whole shale oil industry is effectively nothing more than a giant Ponzi scheme.**

**He says the game works like this.**

**Insiders create companies with massive debt, borrow at cheap rates, operate on a negative cash flow, sell shares in their well marketed, apparently “booming” companies to a naive public, and then get out, making millions in profits, and leaving the business to fall into bankruptcy.**

**Weyler points to companies like Pioneer, Concho, Cimarex, and others, who collectively operated at a 40 billion-dollar cash flow deficit in the Permian oilfield in west Texas between 2012 and 2017,**

**and Anadarko, a typical company in the Niobrara shale field in Colorado that made inside investors very wealthy indeed by growing its share price from virtually nothing to 112 dollars a share by 2014 on the back of years of loss-making production until, eventually, the debt mountain could no longer be hidden and the stock price collapsed.**

**Occidental Oil snapped up what they thought was a bargain in 2018, acquiring Anadarko for 65 dollars a share, but those falling oil prices and the gargantuan size of Anadarko’s debt burden have since reduced Occidental’s value by 85%.**

**According to Robert Rapier at the industry news website Oil Price, over the last five years, 208 oil and gas producers and 224 oil service companies – mostly linked to the shale oil industry– have filed for bankruptcy, walking away from 209 billion dollars of debt in the process.**

**Fracking isn’t the only desperate attempt to scrape the last dregs of unobtainable hydrocarbon from the earth either. Canada’s got its own environmentally catastrophic folly in the shape of tar sands.**

**According to this February 2020 Reuters report, Canada’s Suncor has just taken a 2.8 billion-dollar write-down, and in the last 18 months their value has been cut in half.**

**And also in February 2020, The Canadian Teck Corporation suffered a billion-dollar write-down forcing it to cancel a 20 billion-dollar tar sands project in Alberta.**

**Given all of that carnage it makes sense that the larger, more robust corporations have now been frantically making deep cuts to their spending on new production.**

**Projects that these companies would have previously regarded as low cost at around 35 to 45 dollars a barrel now look unrealistic in the context of today’s historically disastrous market prices.**

**So, most companies are either scaling new projects right back or shelving them completely.**

**Shell recently announced a 20% cut to its spending plans and has suspended its share buyback program. It also issued nearly 4 billion dollars of bonds to raise much needed capital.**

**French giant TOTAL followed a very similar strategy with a 3.3 billion dollar bond issue.**

**Norway’s state operator Equinor, who used to be called StatOIl before the PR men arrived, halted a 5 billion dollar share buyback in March, and issued a further 5 billion dollars in bonds.**

**CFO Lars Christian Bacher said the bonds, along with Equinor's previously announced plan to reduce costs by $3 billion, would strengthen the company's financial resilience and ensure liquidity for prioritized projects.**

**But there’s another element of the Perfect Storm that makes contingency planning even more challenging for these companies.**

**The industry ALREADY suffered a major drop in oil prices as recently as 2014 – 15.**

**To get through that little crisis, most oil production and servicing companies crawled all over their operations with a fine toothed comb to unearth every possible efficiency gain and cost cutting measure that they could find at every stage of their production and shipping cycles.**

**That means that this time around the jar of wriggle room cookies is pretty much empty and producers are finding themselves with no choice but to make direct cutbacks in activity.**

**And the pain doesn’t even stop there either.**

**In recent years there’s been a major ramp-up of investment in oil refineries.**

**It turns out the ever- courageous speculators of the oil world brought more than 2 million barrels a day of new refining capacity online just in 2019 alone.**

**Again, in normal circumstances, low crude oil prices don’t really spell big trouble for the refiners. But as demand for oil collapses in 2020, refinery margins and volumes are being squeezed in a way that Brian and Colin in the corporate spreadsheet department hadn’t factored into any of their equations.**

**That brings in the very real prospect of refinery closures, which the IEA say would accelerate the restructuring of the global refining industry towards regions where oil extraction is still cheap, like the Middle East, or where demand for oil is still growing, like in the developing countries of Asia.**

**All those risk factors result in the final, and arguably most existentially perilous consequence for the oil industry.**

**That consequence is the loss of the one thing that most oil companies rely upon more than anything else.**

**External investment.**

**As this April 2020 Guardian article pointed out,**

**The oil price plunge has demolished the lucrative returns on exploration projects that investors have become accustomed to.**

**In late March, Valentina Kretzschmar ,Director of Corporate Research at the respected industry analyst Wood Mackenzie, was asked what the impact of a 35-dollar oil price would be. Her answer was…**

**“It’s a very, very ugly picture,”**

**“At 35 dollars a barrel” she said, “75% of projects don’t even cover the cost of capital.”**

**Kretzschmar also pointed out that the rates of RETURN ON INVESTMENT for oil and gas projects have slumped from about 20% down to 6%, which she says is very much in line now with what you can get from solar and wind projects.**

**“It is not a very attractive proposition.” Kretzschmar said. And “At $20 a barrel the industry will be decimated.”**

**According to this 2019** **report, “Investments in oil and gas are tanking,” and energy investors are experiencing a “crisis of faith.”**

**The**[**Wall Street Journal**](https://www.unpri.org/inevitable-policy-response/forecast-policy-scenario-equity-markets-impacts/5191.article)**stated that oil companies are “falling out of favour with investors.”**

**And** [**Goldman Sachs**](https://www.theguardian.com/business/2019/dec/16/goldman-sachs-to-stop-financing-new-drilling-for-oil-in-the-arctic)**themselves have announced they will no longer finance Arctic oil development over concern for climate change and the fact that drilling and exploring in the far north is risky and expensive.**

**A global divestment campaign started by the climate activist group 350.org back in 2012 reached a milestone in December 2018 when it confirmed a thousand international organisations including Governments, universities and banks had all pledged to divest their funds away from the fossil fuel industry.**

**The total sum of money being withdrawn since the campaign began is now more than 8 trillion dollars.**

**The International Energy Agency warns that the global pandemic has come at a time when the oil and gas producers were already grappling with the implications of the renewable energy transition for their operations and business models.**

**What the lock down has effectively done is abruptly fast-forward the future of the oil industry to the present day.**

**There will come a point of course when the world returns to some semblance of normality, but we could find that the new ways of working that hundreds of millions of people are having to quickly adjust to at the moment might result in very significant structural changes in the way the world consumes oil once the crisis ends.**

**That’s especially true in the aviation industry. Long-haul aviation in particular has driven strong growth in oil demand in recent years.**

**But as business execs get used to the convenience of remote working from home, using social media and video conferencing,**

**and as they find themselves cutting their own costs to ensure THEIR companies get through the coming global recession, will many of them be able to justify getting on a plane to go to a meeting anymore?**

**And the IEA says the heavy cuts to investment in production capacity will definitely affect the medium-term prospects for oil supply.**

**That could be a profound shock to the economies of oil-exporting countries. Those sorts of economic shocks tend to make it more difficult for countries to buy essential goods and services from the rest of the world, and faltering economies often bring social instability and conflict.**

**So it looks increasingly unlikely that the world is going to simply amble along a smooth path back to business as usual.**

**Whatever does happen, the industry will never be the same again after the double whammy of the pandemic and the price war according to Valentina Kretzschmar at Wood Mackenzie.**

**Many experts and analysts suggest the whole climate change debate will almost certainly also take a difference course after the crisis. But exactly what that looks like remains to be seen.**

**There’s no doubt that hundreds of thousands of skilled jobs will most likely need to transfer across from the fossil fuel industry to the renewables sector in the coming years, as the transition to low carbon sustainable sources of energy generation continues its inevitable march forward.**

**As part of that journey, governments will certainly need to build in very robust contingencies to safeguard the livelihoods of those key workers.**

**And, by the way, anyone thinking that the people who currently make huge profits from lobbying lawmakers, cutting corners and avoiding regulations in the existing power generation sector aren’t going to be the exact same people trying to generate similar profits in a similar fashion from the brave new world of green sustainable energy is very naïve indeed.**

**So governments will also need to be on their guard for charlatans and cheats in the new world of energy production.**

**But Kretzschmar says the most pressing immediate question is how long the current lock down situation is going to last, and right now no one really knows the answer to that one.**

**In the meantime, dive down to the comments section below and let me know your thoughts on the current and future state of the oil industry and what you think the prospects are for the future of hydrocarbons in our global energy mix.**

**That’s it for this week though.**

**A massive thank you as always to the channel’s supporters over at Patreon who make these programs possible and I must just give a quick shout out to some new patrons who since our last episode have joined our Patreon page with pledges of ten dollars or more a month.**

**They are**

**Michael Hasek**

**James Holmes**

**Arthur Valencia**

**Russel Hills. And**

**Donovan Walker**

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**As always, thanks very much for watching,**

**Have a great week and remember to just have a think**

**See you next week.**