

# SYNERGY

Bilkent Energy Policy Research Center Newsletter



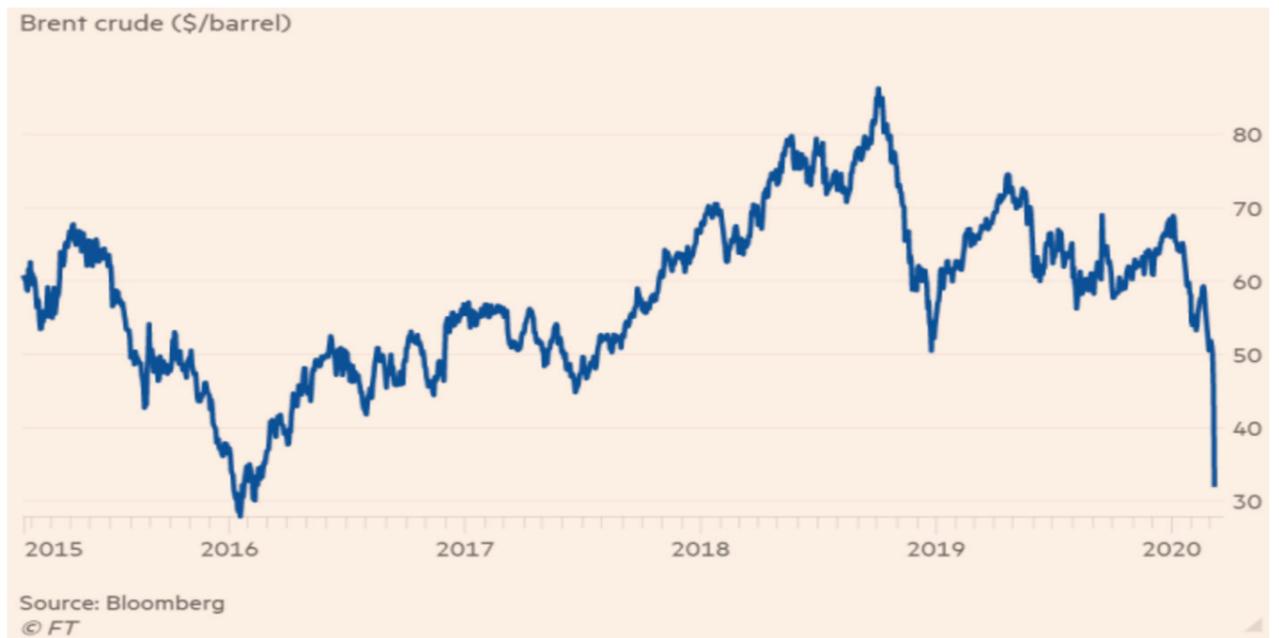
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## Good and Bad News: Oil price war

During one of our analysis, we found a weak relation to negative price movements after OPEC meetings. Initially, we thought it was too political and risky to claim that OPEC meetings are generally succeeded by price decreases. From a rational point of view, a commodity market cartel's meetings should be to stabilize or increase prices. However, this one was quite a lesson for all oil watchers...

Why? Because after the meeting, there may be no agreement, and the cartel may go with its ongoing cuts. However, the dispute between Russia and Saudi Arabi turned into a price war. Saudi's has carried out price attacks before. So it is not unprecedented. But the effect is enormous. Oil prices have seen the biggest drop since 1991. It was not so obvious that such a move may happen. Our common sense tells us that the price of war is bad for everyone. Recent reports are giving clues that such an act was in the development at least since February. WSJ claims King Selman called Putin, but Putin made him unavailable for talk. Later he talked to King and rejected oil production cuts.

Ali Al-Naimi, the famous Saudi Oil Minister, has initiated a price war to hit shale oil's increasing market share. This cost him his job in 2016. In the last days of the OPEC+ era, we were hit by a demand shock (although some experts name it as a supply shock) caused by Coronavirus. After this demand shock, a supply glut is like a perfect storm. On Friday, we talked with Cüneyt Kazokoğlu in our podcast about Coronavirus's impact on oil markets. I made a forecast claiming that Saudi's will defend the price since that was the market sentiment. Neither options market nor future market was giving a sign of price war. But we mentioned about Bob McNally's 26\$/b forecast too.



Now, the price war is a reality, and the riskiest move has been made. Why? There may be several reasons, but we do not have information on the details. But if such a move is a very big event, it should be a cross-cutting move aiming to achieve several objectives. One of them is about Russia-Saudi-US trilateral relations, and the other one may be about Saudi succession. Continuous weak oil demand may be another motivator. Shale bankruptcies and the consolidation of shale assets in the hands of big oil companies maybe another dimension. But these are all conspiracies. The reporters claimed Saudis are looking for 80\$, Russia was giving the message that he is adjusted the budget for 40\$/b. Shale oil is looking for 50\$/b. How about the others? Most of the OPEC members will be hard hit by any price below 60\$/b. From the developing countries' perspective, this is good news from a distance. But coronavirus panic on steroids with an oil price war may not look suitable for anyone.

So what may happen? In terms of pure speculation, the first question is the possible duration of such a price war. Since it is very sharp, the duration can not be too long. This is the reference scenario. The alternative one is that it will last 18

months or so until demand picks up strongly. Sometimes I resemble energy demand to giant metal gear. It takes quite a lot of effort to make it move, and it takes more effort to slow it down.

One possible narrative may be the repeat of previous events. A third party OPEC member may broker a new deal between Saudis and Russia. Previously Nouredine Boutarfa brokered such a deal bringing Russia and OPEC inline because third countries suffer from these wars more than the warring countries.

What is the message in this price war? The obvious one is market share. But there must be some other messages to justify such a sharp message. It will be revealed slowly, I guess. This is good news for consumers, bad news for shale, OPEC, and other oil producers. Another good news for natural gas demand and commodity consumers. Now we have to look at food prices. The revenues of oil producers will drop, but the subsidies for their domestic food supplies will continue until they feel the pain.

There may be other questions and answers, but the biggest question is still Saudi Arabia.

Bariş Sanlı

## LNG Market: Current Situation and Expectations

At the beginning of 2020, the liquefied natural gas (LNG) market was confident of the growth, and several countries were investing in vast amounts on establishing their LNG facilities. According to Shell's 2020 LNG Outlook, global demand for LNG grew 12,5% from the previous year to 359 million tonnes. China was once again among one of the top three LNG importing countries, as it increased its demand by 14%.

The flexibility of the market also becomes stronger with the massively increasing number of spot cargo deliveries in 2019. Around 1600 cargo deliveries meant a nearly 250% increase compared to previous years. That allowed customers to create new mechanisms and a wider variety of indices on the spot market. The role of oil prices in determining natural gas prices had declined in this period.

According to the same report, the future looks bright for the LNG market. In the long term, the LNG demand is expecting to double to 700 million tones by 2040, according to forecasts as a low-carbon product. This demand mainly will come from Asian countries China, Japan, and South Korea. Furthermore, Shell also estimates that LNG as a marine fuel could reach 30 million tones a year by 2040, as infrastructure develops, and more LNG ships are ordered.

These projections are continuing to attract new investors to the market. For instance, Saudi Arabia focuses on becoming a major LNG supplier of the world and increasing their investments in this area. Russia also builds LNG terminals and strengthen their role in the market. High expectations help to finance the projects, and many exploration activities are being held in different parts of the world. Today, eastern and western Africa, East Mediterranean, and South America have the potential to supply further LNG to the world. Despite being unsuccessful, China also contin-



ues to invest in developing its LNG supply. Overall, the agents in the market expect a bright future.

However, with the Coronavirus incident and warm winter conditions, high expectations brought new questions into considerations. In the "Enerji Sohbetleri" podcast series in two episodes Barış Sanlı and Sohbet Karbuz discussed the current conditions and future expectations in the market.

Sohbet Karbuz stated that China had taken advantage of the Coronavirus situation by declining two LNG shipments in February by showing force majeure clauses.

Despite declining the US LNG that depend on oil-based contracts, China continued to trading in the spot LNG market and took advantage of the prices. Of course, political moves play an essential role in energy trade, but the warm weather creates another problem for the suppliers. Due to a decrease in demands, stocks are filled up, and companies are having a problem establishing long-term contracts. It is still being discussed whether these winter conditions are temporary or the new normals as a result of global warming. To understand this phenomenon, we still need to wait for a few more years.

Despite the positive projections, we should not ignore that Shell

itself is one of the significant investors of LNG. As a significant player, they may follow a policy to promote LNG and create a perception that it will play a more critical role as the years go by.

According to Sohbet Karbuz, the developments in the electric cars and transforming the heating source to electricity as the Netherlands did, the role of shale gas might not reach these potentials. Additionally, the part of nuclear facilities in Japan can lead to decreasing demands as well.

To have further knowledge about the issue, you can check the Shell LNG Outlook 2020 or listen to the podcasts made by Barış Sanlı and Sohbet Karbuz that are available on Spotify.

Gökberk Bilgin



## Climate Change Policy of Turkey

According to reports of the International Panel on Climate Change, less precipitation and the increasing danger of drought are the primary influence of climate change in the Mediterranean Region. As a Mediterranean country, Turkey has one of the most vulnerable locations on Earth. Because of that, her location is determined as a climate change hotspot. For the main dangers, the average temperature has been increasing, and also the amount of precipitation has been regularly decreasing in Turkey. In addition to these problems, the increasing duration of hot winds and sea level, reducing river discharge, crop potential, and mountain glacier are the side effects of climate change that Turkey has been coping with.

The main reasons that climate change has become such effective in Turkey are urbanized population, rapid economic growth, increasing industrial activity, and external dependency in the energy sector. 75% of the greenhouse gas emissions in the country come from fuels used in energy production and various sectors (industry, transportation, construction, agriculture). Also, it has been dramatically increasing for two decades. Just like other countries, Turkey also aims to transform itself as a high-efficient and low-carbon country and pursues to reduce its primary energy intensity by 20% in 2023. Turkey has been working on climate change problems with the encouragement of the European Union for three decades. Especially in the energy



sector, Turkey is trying to reduce energy intensity by increasing energy capacity and supporting R&D activities. Also, effort on increasing the share of green energy production and use has been growing.

To become an environmentally-friendly country, Turkey projects to put limitations on the construction sector. Since 2017, the incentive for renewable energy usage in buildings has been heightened. As one of the most significant causations of pollution, the industry sector has been limited by legal arrangements for energy efficiency and reducing greenhouse gas emissions. Reducing carbon dioxide equivalent intensity is one of the main projects by developing and strengthening financial and technical infrastructure. For transportation, Turkey purposes of promoting an intermodal transport system by increasing the share of railroads, seaways, and increasing the percentage of highways to provide well-distributed and ecologist transportation plan. Additionally, the popularization of alternative fuels and ecologist vehicle technologies in the

transportation sector has been supported and encouraged by the government.

Corresponding with pollution and waste, Turkey aims to reduce the number of biodegradable wastes admitted to landfill sites and establish integrated solid waste disposal and recycling facilities across the country and dispose of 100% of municipal waste in these facilities. In the agriculture sector, Turkey tries to increase the sink capacity by using topsoil and subsoil biomass. Limitations related to emissions are also used in the agriculture sector to decrease GHG emissions and identify potential GHG originating from vegetal and animal farms. In addition to that, afforestation projects have been applying almost all regions in Turkey to raise the amount of carbon sequestered in forests. Turkey also fights with deforestation and its damage for a long time. Ministry of Agriculture and Forestry is still working on reducing potential forest fires and deforestation.

Kaan Demirci

BRENT OIL

36.94 \$/BL

GASOLINE

6.71 ₺/LT

USD/TRY

6.12

DIESEL

6.28 ₺/LT

EUR/TRY

7.00

FUEL OIL

3.55 ₺

## Turkey's Energy Demand and Its Effect to Environment



Since liberalizing its economy in the 1980s, Turkey has an economy that has almost tripled in size over the past twenty years. With its 5-year development plans, Turkey hopes to become one of the world's ten largest economies by the year 2023. Nonetheless, climate change is one of the main issues that countries face, and currently, Turkey's growth aims are clashing with making environmentalist policies on the energy field. Because energy supply is a critical factor for economic growth and Turkey's energy demand is increasing by 4% per year. This is happening because Turkey's free-market economy is becoming increasingly dominated by its industry and service sectors, whereas its agricultural sector has become less prominent as well. A combination of these factors poses environmental issues.

Air, soil and water pollution altogether are considered as Turkey's major concerns for the environment. Among them, air pollution reveals itself as the most significant one, especially in the country's urban centers. According to the European Environment Agen-

cy (EEA), more than 97% of Turkey's urban population is exposed to unsafe amounts of particulate matter pollution. Furthermore, data acquired from Turkey's Ministry of Environment and Urbanization in 2017 found that the air pollution values in almost every province of this nation were between 151 and 200. In highly populated areas, these numbers reached over 300, whereas to have good air quality numbers are considered between 0 and 50. Additionally, Turkey's carbon emissions have also risen significantly over the past three decades. As the world's 20th largest emitter of greenhouse gases (GHGs), In 2016, Turkey's total GHG emissions increased by 4.4% to reach 496.1 million tons of carbon dioxide (CO<sub>2</sub>) emissions, which perceived as the main problem to be dealt with. For problems concerning water, Turkey is already having a hard time over not having evenly dispersed water resources in-country. Lack of focus towards effective and integrated control over water resources, overfishing, and water pollution have led to a significant decline in fisheries as well. The production of anchovies, one of the most prevalent com-

mercial fish in Turkey, fell by 28% in 2012, according to the Turkish Statistical Institute.

To strive against upcoming challenges from the environment, Turkey put building sustainable development policies and increasing the role of renewable energy (especially wind and geothermal power) to the center of its solutions. Turkey's Nationally Determined Contribution (NDC), which was submitted to the United Nations Framework Convention on Climate Change (UNFCCC) in 2015, stated targets for both solar and capacity to reach 10 GW and 16 GW, respectively, by 2030 as well. In the meantime, the state is trying to decrease its use of coal for electricity, which corresponds to 28%.

Giving up economic aims is not an option, so the state is trying to maintain the level of growth by covering the energy demand from renewable sources. By 2023, Turkey aims to generate 30% of its total electricity from renewable energy sources.

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