News Release

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IEA Executive Director Fatih Birol on What is Starting to Bring Oil Markets Back to Balance; Early Signs of Recovery in Global Energy Demand; and Why Predictions for the Demise of U.S. Shale are “Premature”

Birol speaks with IHS Markit vice chairman, Daniel Yergin for the latest CERAWeek Conversations – available at www.ceraweek.com/conversations

WASHINGTON, D.C. (May 15, 2020) – IEA executive director Fatih Birol assesses the current state of global energy markets—from oil and gas to LNG and more—amid COVID-19 impacts; whether pandemic will shift the outlook for “peak demand,” and why the pandemic-induced record decline in global carbon emissions, on its own, “is not something to be happy about” for the latest edition of the CERAWeek Conversations series.

In a conversation with Daniel Yergin, vice chairman, IHS Markit (NYSE: INFO), Birol talks about why the previous month could become known to history as the oil industry’s “Black April,” the importance of including energy investments as part of COVID-19 stimulus and more.

The complete video is available at: www.ceraweek.com/conversations

Selected excerpts:

(Edited slightly for brevity only)

- On the state of markets and the release of the new IEA Oil Market Report on Thursday:

“We see a less pessimistic picture. Last month I said at the beginning of April, that month could go down in the history of the oil industry as “black April.” After that we saw oil prices negative and lots of pressure on stocks everywhere especially on the oil
industry—unprecedented pressure. This month is a little better. We see early signs of a gradual rebalancing of the global oil markets. Early signs of a gradual recovery.”

- **Three factors bringing oil markets gradually back to balance:**

  “One, demand. Oil demand is still in huge negative territory, but slightly better than a month before. Mainly because of the opening up of some economies around the world—China, some parts of Europe, slowly the U.S. coming. And the road transportation shows signs of life from the demand side.

  “Second, the OPEC+ agreement. We are starting to see its effects as of May 1. In addition to Saudi Arabia, the Emirates and Kuwait said they would make additional cuts.

  “Third —what is happening in non-OPEC countries such as the U.S., Canada and elsewhere. In the case of the U.S. we are expecting production to decline about 2.8 million barrels per day throughout the year. Putting these three things together—a steep decline in the non-OPEC producing countries, OPEC+ pushing their agreement forward and demand showing signs of recovery—brings us to this conclusion.”

- **On the current drivers of gradually recovering energy demand:**

  “We see the recovery from two subsectors—one is the road transport, mainly cars. The second one, not just for China, but for many industries, is the petrochemical industry.

  “When I look at all the oil consuming sectors, while we see aviation and road transportation getting a big hit, the petrochemical oil consumption seems to be much more resilient, mainly because the petchem sector produces protective equipment for the healthcare industry.”

- **Why predictions of the demise of the U.S. shale sector are premature:**

  “We are seeing that the shale industry will get a strong hit from the current situation. But many people around the world are saying that we may well see shale is done forever. I don’t agree with that. If the prices recover around $40 or above, we may well see shale oil come back, maybe gradually. In my view it is far too early to write the obituary of shale oil in the U.S.”

- **On role of oil and petrochemicals in the COVID-19 energy economy:**

  “In Paris, under confinement for two and a half months, if we are able to eat vegetables today it’s thanks to the truck drivers bringing them to the shopping centers. Also packaging and plastics play a very important role. And for disinfection, this is also coming from the petrochemical industry. But of course, petrochemicals also produce automotive inputs. These are going down. Also, for the construction sector—pipelines and plastics are also going down. But in general, the petrochemical sector was the most resilient sector among oil consuming sectors.”
• **The role of the G20 (20 largest economies) in stabilizing global energy markets:**

“There are certain junctures in history that one needs to read the game quickly and in an accurate manner. We knew that the OPEC+ countries were making some efforts to cut the production. But I thought there was a need to go beyond OPEC+ countries. The other producers—there are very important producers outside of OPEC such as the U.S., Canada, Brazil, also China and the United Kingdom—to bring them and also the consumers [together].

“Because I believe that very low prices are also not good for the consumers. I thought it would be a good idea to have an extraordinary G20 energy ministerial meeting and call the Prince Abdulaziz of Saudi Arabia, the energy minister, who is the chair of the G20 this year.

“With his support and with the support of all G20 countries we brought around a virtual table, 80% of the global oil consumption and 75% of the global oil production. All the ministers said how important it was to have stability in the global oil markets, and how dangerous the extreme volatility of the oil prices was for both producers and consumers. I thought it was a very important political message in terms of the G20.”

• **On IEA statistics on the decline in demand across fuel types so far in 2020:**

“Global energy demand decline is seven times larger than 2009 after the financial crisis. Coal took a big hit from China, India, the U.S., Europe. The biggest decline in coal consumption globally after the second world war.

“In terms of gas, also a very strong decline around the world especially because of the industrial sector being more or less paralyzed around the world. In terms of electricity generation, the contribution of gas is much less because electricity demand also went down significantly.

“In terms of electricity—big decline around the world. Seven times bigger decline compared to 2009.

“In terms of renewables, renewables were the only energy sector where we saw a slight increase in 2020 for the following reason: many governments give priority to renewables for electricity grid connection. It’s also because the operating cost of renewables is very cheap.”

• **On the historical decline to date in 2020 global emissions:**

“We have never seen in history emissions go down so substantially. To put it in context, the decline this year in 2020 in emissions erased the increase in global emissions in the last 10 years.
“This decline in emissions is not something to be happy about. Because it’s not happening because of the right energy policies. It’s happening because of the premature deaths—thousands of people are dying—and the economic trauma.

“We can’t be happy because of this emissions decline. If we don’t take the right measures, we may well see a significant rebound of emissions with the economic recovery in the next year to come.”

- **On LNG demand and the potential impact of deferred project investments:**

  “LNG is also [taking] a big hit around the world. I’m also worried that if demand picks up in the next year to come, we may well see that the loss of appetite in LNG investments may cause difficulties for LNG markets. We are analyzing the investments for all the sectors around the world—LNG, oil, renewables, electricity—and LNG investments are taking a big, big hit.”

- **On the notion of “peak demand” and the continued role of oil in the global economy:**

  “I don’t think it’s the end of oil yet. We still need oil for years to come. We’ll see how much oil demand will rebound with the economic recovery. One thing we have been saying: Oil demand growth is slowing down. It’s not stopping, but it’s slowing down, for many reasons. But we will still need oil for transportation, for the petrochemical industry. There will be a transition. But I hope that this transition will be an orderly transition and that oil will still be a part of our economies.

  “To go back to 100 million barrels per day—what we had before the crisis—will take some time. People are mainly focused on the behavioral changes of consumers. There are some behavioral changes coming from this phase which will push oil demand down. But some will push oil demand up. They may more-or-less cancel each other out. The biggest question for me is the macroeconomic picture. I don’t see the global economy coming back so strongly and quickly. [Unlike] in the last crisis we don’t have a very strong Chinese economy to be the engine of global economic growth. China and India are also affected by this crisis unlike the previous crisis; therefore, it will be difficult.”

- **The importance of including energy investments in government stimulus:**

  “We talk to 38 key governments around the world almost on a daily basis. Most of them are preparing economic recovery packages that are on a once-in-a-generation scale. What kinds of energy policies that will be included in those packages will be critical for the energy sector in the years to come. Lots of infrastructure projects will be there. What we are telling the governments is that we hope this recovery will be a sustainable recovery. And that it will include energy policies which will help job creation, which will help boost economies, but also a much more modern, cleaner, and more resilient energy system.”
“But what I am scared about is the following—in Europe, Asia, and North America, there is a growing debate on people pushing for jobs in the economic recovery and people pushing for climate change, as if we have two camps: jobs vs. climate. It’s very important that we avoid such a confrontation; that we have the right energy policies which help create jobs. But also, to find the right energy policies to put the world on a sustainable energy trajectory.”

- **The top research and policy priority for the IEA over the next year:**

  "For us this year we are going to provide advice to governments on how to meet sustainable recovery packages. This is our most important and, in my view, most urgent task. How can we provide governments with that policy advice so that they put the right energy policies—energy efficiency, renewables, hydrogen and others in the stimulus so that, on one hand, they see growth in the economy, but on the other hand prepare the energy systems of tomorrow? This is a number one priority for me and the agency."

- **The growing potential for hydrogen:**

  "Hydrogen is coming very strongly for two reasons. People talk about clean energy, but in fact they are talking only about clean electricity—solar and wind. But electricity is only 20% of the total final consumption of energy in the world. There is still the other 80%. We need other technologies as well and hydrogen can be a very important option.

  “The main problem with hydrogen is that it’s expensive. The main part of the hydrogen chain is the electrolyzer—a very simple equipment and with the right investment we can have mass manufacturing and bring the cost down as we have seen with solar, wind or other technologies. Therefore, I am very surprised that many governments around the world—the U.S., Europe, China, India, Japan—are pushing the hydrogen button as one of the solutions to our environmental and energy security challenges.”

Watch the complete video at: [www.ceraweek.com/conversations](http://www.ceraweek.com/conversations)

About **CERAWeek Conversations:**

*CERAWeek Conversations* features original interviews and discussion with energy industry leaders, government officials and policymakers, leaders from the technology, financial and industrial communities—and energy technology innovators.

The series is produced by the team responsible for the world’s preeminent energy conference, CERAWeek by IHS Markit.

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- **Leadership Dialogue with Mike Wirth** – Chevron chairman and CEO interviewed by IHS Markit vice chairman Daniel Yergin
- **Leadership Dialogue with Hon. Shri Dharmendra Pradhan** – India’s minister of petroleum and natural gas and minister of steel interviewed by IHS Markit vice chairman Daniel Yergin.
- **Competing Today, Innovating for Tomorrow** – Mark Little, chairman and CEO, Suncor interviewed by Carlos Pascual, senior vice president, global energy, IHS Markit
- **Leadership Dialogue with Chris Crane** – Exelon president and CEO interviewed by Lawrence Makovich, vice president and senior advisor, energy, IHS Markit

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