

GEOPOLITICAL RELATIONS WITH OIL AT THE TIME OF COVID-19: WITHOUT OIL THERE IS NO PRESENT, WITHOUT GREEN ENERGY THERE IS NO FUTURE

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ABSTRACT

Oil drives the entire world economy, and it is entirely a geostrategy issue. The strong development of the economy over the past few decades has provided a global stage for those countries that have a stable political establishment while managing enormous amounts of oil. Now, year after year, it is becoming increasingly clear that the importance of oil and gas is falling away, and it is those energy sources that bring about a reduction in the half-life that comes into the scene. Oil and gas are non-renewable energy sources and as such are naturally limited, therefore their reserve will become economically unprofitable in the future, and exploitation will reach its natural end. The aim of this research paper is divided into two structures: the first thesis concerns giving a fresh insight into the state of the oil market from the beginning of the pandemic to the present day. The issue of geopolitical relations between Riyadh and Moscow is to be addressed here and how much of a negative consequence the price war has left on their fiscal calculations, although geopolitical friction has deepened the shock further into financial markets. Thus, the fiscal calculation of both countries suffered revenue shocks, but it also prompted an even deeper decline in stock indexes and temporary stagflation of the global economy. The second thesis refers to a brief review of the analysis of the long-term future of non-renewable and renewable energy sources. The future of cleaner forms of energy is imperative, but also a challenging task, as this means shifting the entire structure of national economies to green and renewable. The focus is on giving insight into why this is a necessity, but also why there could be a dangerous precedent and negative cash flows in some structures of the economy. Currently, and any future planning and fulfillment of climate guidelines, must not lead to an increase in energy poverty and consequently a decrease in living standards, because in all geopolitical games the line is always drawn between rich and poor countries, that is, advanced economies and developing economies. Therefore, the long-term and global leaders in green and renewable energy sources will be those countries that successfully implement public interests in these projects, because only in this way can the goal be met – shifting a certain structure of the economy to cleaner sources while satisfying social utility and increasing employment.

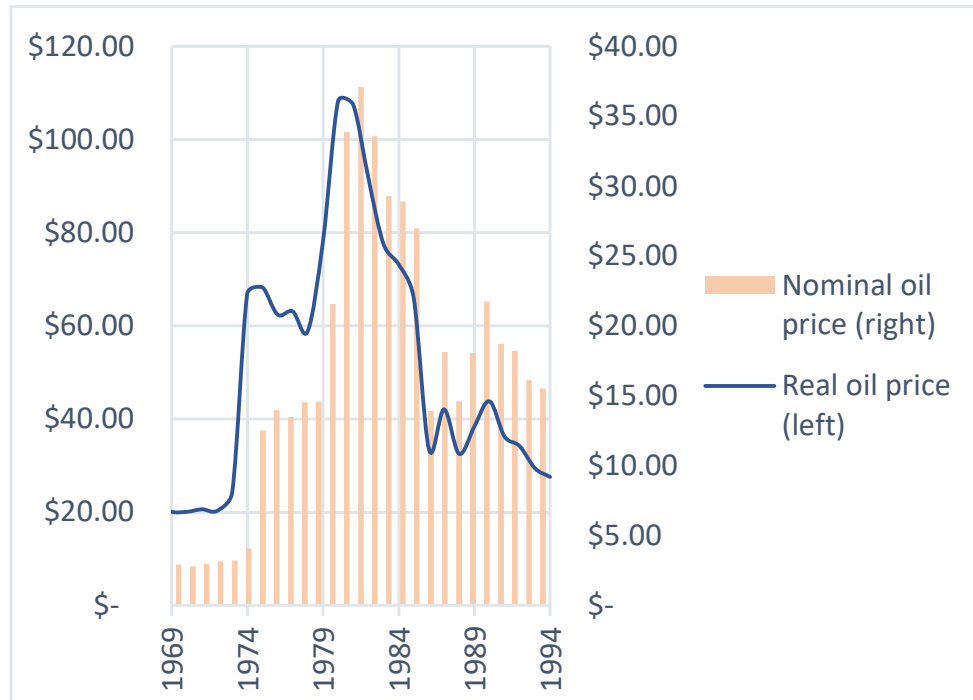
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INTRODUCTION

Oil - black gold, as they always call it. Its impact on world economies and interest associations are so great that it also starts wars for the supremacy of oil fields and wells. When asked if oil, due to its influence and dependence on it of the whole world, has a future, the answer could vary from person to person who deals with geopolitics in more detail. In general, it certainly is, at least another twenty years but for someone certainly more. The green transition is the future, the world is rapidly changing and evolving and turning to more and more renewable energy sources. This is not an easy task for every country and oil as oil at least in the first years of a stronger shift to green it will have an important function, this is unquestionable. The green transition is not a simple issue, and another issue could be withdrawn here, rightly so, which is how real and effective it is to shift the world out of the depletion of the earth's lifeline – oil to renewable energy sources, cleaner air and environmental protection. The fact is that precisely because of this cleaner environment, which today and in the future is a necessity and a name of practicality, every today's and future strategic and business planning of companies will depend on the structural segmentation of energy products, both oil and all future ones, because it has become an extremely environmental issue and will become with this influence and increasing.

THE IMPACT OF THE VIRUS ON THE OIL MARKET

The price of oil depends on supply and demand, but this issue is much broader. What the price will be today, and what tomorrow, depends on the economic picture of the oil powers, oligopolies, which ultimately negotiate barrel quotas and fuel prices. Who would be at the forefront of the oil market? Primarily the International Cartel OPEC, the USA and Russia. The supply and demand for oil itself has been mostly influenced, at least as has historically proven, by oil shocks produced through various geopolitical unrest in states and relations. In the context of oil, one always refers to the price and production capacity. The question arises; who does the cheaper oil price suit? This benefit cannot cover all parties in the game. A cheaper price corresponds to countries that are less developed. The final buyer of this oil or the economy can consume more oil at lower tariff prices. If you look back 30 years, the real price of oil is in constant decline. The exception is only parts of the period in 2008 when the barrel reached its historic level of \$150. Prices are constantly falling due to strong and hectic technological developments, but while logic would be made that this is always only and exclusively good for the oil importer country, the reality is that this is not so. The negative effects of this can be linked to production costs that are far higher, such as oil refining in the Middle East than in the US, for example. Any spending hit to the oil-exporting country also means future planning to reduce the delivery of a barrel of oil, lay off workers, reduce capacity facilities through exploitation and the like.

Fig. 1. Oil price in oil shocks

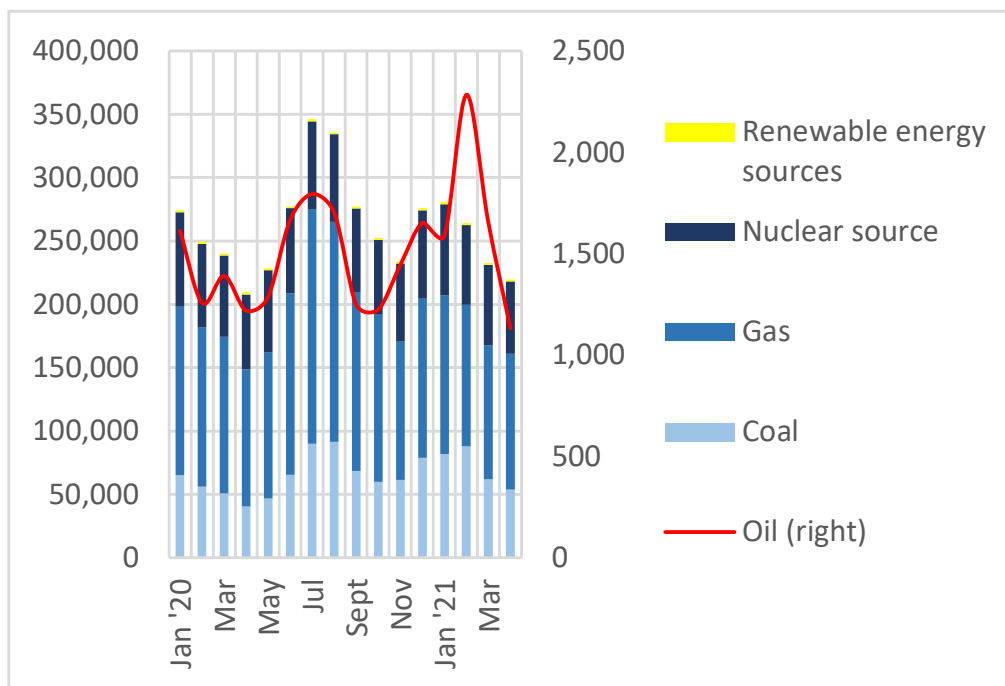
Source: authoring

From the beginning of the story, only this shift from oil to renewable energy sources was mentioned, fifteen years from now. Today, there are preliminary studies conducted by the Americans, reflecting on the impact of the national finances of all countries that are both exporters and importers of oil, in order from the US to Venezuela, Russia and Arab countries. The fact is that the world covers about 40% of all energy requirements with oil, or even one US that meets these needs and even more than 40%. Analyses have shown that this shift to green energy by the next twenty years could cost the oil industry \$13 trillion [1]. This would surely be the biggest blow to the government finances of those countries that are the most and imported or export dependent on oil, as this loss would go all the way up to 40, 60 or even 80% on their balance sheets. COVID-19 has also brought something good for the world, at least temporarily, which is reduced emissions into the atmosphere. A significantly comparable difference was when compared in the first months of 2020 where it was reduced by more than 6%. This happiness, although it was temporary, because with the gradual opening of the global economy in the later quarters of 2020 and emissions in the atmosphere relatively returned to the old paths, it showed another side of the story, stronger, which is that the global-political lobby is slowly understanding and accepting the consequences of global warming precisely because of the same gases. In recent years, renewable energy sources have been coming to the scene and at the big gate as a new source of global energy, and increasingly this baton is going out of hand to oil and gas.

As artificial intelligence, fintech and the new generation of the internet are the future of the IT sector, so are renewable energy sources, electric cars are the

future of the green transition, and the green transition is simply imperative today. The price of oil, in almost all of 2020, had daily extremely volatile fluctuations, precisely because of the strong geopolitical friction between Riyadh and Moscow but also when the spread of the virus was sampled. If the situation is analyzed more deeply, then one can understand how the entire structure of the global economy today, of course at least even currently, including the issue of the price of oil and its supply and demand, rests on the scale of how evident it is and in what period that the curve of the newly infected begins to fall progressively. Unless the situation changes in the coming months and starts to stabilize, the world could very well experience an oil crisis for the second time in two years in terms of supply strength and demand, and then of course pressure on the price and state budgets.

Fig. 2. Electricity by sectors (in millions kW/h)



Source: authoring

RUSSIAN – SAUDI PRICE WAR

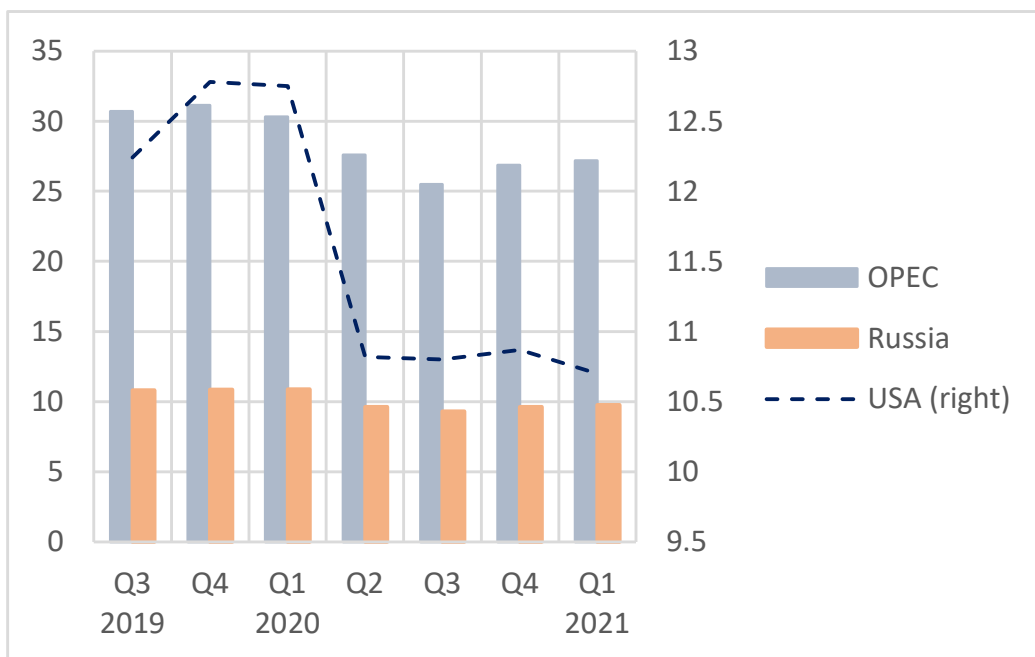
With the arrival, then, of the global financial crisis of 2008, the price of a barrel of crude oil also jumped. The historic jump that occurred at the time moved in June and July 2008 when a barrel broke the psychological limit of \$150, and by the end of that year the barrel had fallen all the way to \$35. The movement of the oil price itself is extremely volatile, and it is volatile because it is simply an exhaustive natural resource, such as gold, and at this age the world is at the maximum of world production. In late 2008, and early 2009, when the price of a barrel collapsed to \$35, it was largely due to speculation that the recession ahead at the time would dry up oil demand, in the narrow sense the need for energy. Such a drop in prices also paid all attention to the significant stagflation of the global economy that the crisis brought with it. With the offer of oil is the same as

with the offer of money – its price will rise/fall depending on whether production itself decreases or increases and when stocks, primarily in the US financial market, fall because then investors direct their escape towards gold or oil to distance themselves from volatility.

Since 2014, the price of oil has been held at \$50-55 a barrel, but here comes another question; what kind of price can be expected in the long run, is it considered the fact that the maximum oil depletion capacity is already being exploited globally? The previous year brought another crisis, and therefore another oil shock, who knows which one in a row. The COVID-19 pandemic has revealed all the sluggishness and "games behind the veil" in the oil market between OPEC, Russia, and Saudi Arabia. Due to the global impact on economies around the world brought with it by the virus pandemic, oil exporting countries OPEC+ met in early March and bilaterally agreed to reduce oil production capacity in the second quarter of 2020 by about 1.6 million barrels per day.

The decision was taken and accepted by all countries except Russia, marking the end of an informal partnership with OPEC with its rejection of the request.

Fig. 3. Oil production (in millions of barrels per day)



Source: authoring

Russia's decision formally marked the beginning of a Russian-Saudi price war as Saudi Arabia said it would turn its course on the decision by increasing oil exports, and as a contrasting correlation it was a drastic drop in oil prices on world markets. At the very beginning of the first quarter of 2020, the price of WTI and Brent oil was around \$55 and \$63 a barrel, respectively, only to see the price of WTI oil fall to \$16 at the start of the second quarter and Riyadh's decision, and the price of Brent to \$23 a barrel. Although such political decisions are always a double-edged sword, the point is that Saudi Arabia's reserves and production

capacity are far higher than with Russia and then it can be met, relatively briefly, with an oil price of \$24 or \$32, but in that case at that price it would then have to sell more oil to cover its fiscal point. On the other hand, Russia does not want and cannot afford it. What the economic vocabulary interprets and is particularly pronounced within the framework of the oil market, is the "*breakeven price*" – the minimum price for a barrel of oil at which it must be sold to primarily cover the fiscal deficit in the balances of payments of states. Russia has its own minimum fiscal point, and it currently stands at \$46 a barrel, while Saudi Arabia has its own and it is \$76 a barrel [2] and it is clear why it is said that such decisions are always a double-edged sword because both countries are budgetary suffering damage. The 30% drop in oil prices on world markets due to the Russian-Saudi war, but also because of the global demand caused by the virus, are certainly one of the reasons why world stock markets have sunk like this.

It is safe to say here that the decline in stock indexes due to oil is not noticeable, but natural, looking precisely through the fact that the decline in global oil demand is caused by the natural movement of the global economic flow due to the virus, but consequently also by the price war between Riyadh and Moscow. Future Crown Prince Mohammed bin Salman is preparing to implement major projects that would gradually reduce its dependence on oil [3] in the coming years, given that over 50% of Saudi Arabia's GDP is oil and gas, and the movement of oil prices on world markets, in the large period of 2020 and 2021 and the merits of the virus pandemic, and encourage these projects to start implementing as soon as possible.

Despite the oil market recovering and currently the price of oil moving to an average of \$70 a barrel, in a price war that lasted a full month between Saudi Arabia and Russia, placing more barrels of oil on the market in spite of Russia for Saudi Arabia was a challenge, as it must cover its placing of more barrels of oil on the market than somewhere, and covers it precisely from his reserves. Oil reserves are far higher than with Russia, precisely because all Arab countries are far more dependent on oil and much of the balance of payments is based on oil exports. On the other hand, Russia is not so much dependent on oil as on gas and gas is its area of geopolitical dominance, but it is quite clear that oil has enough influence on Moscow's fiscal calculation that it cannot be satisfied with any price. A few months ago, it was signaled from Moscow that Russia could survive the next decade with a price tag of \$25 or \$30 a barrel but whoever is engaged in geopolitics and especially oil relations knows that this story does not hold water. With such a price, no Saudi Arabia can survive with its entire oil reserve, including the US, which is the largest producer and consumer and "*economic addict*" to price, and especially then Russia.

Fig. 4. Oil price (left), world supply and demand (right, in millions barrels per day)



Source: authoring

OIL, GREEN ENERGY – WHAT IS THE LONG-TERM FUTURE?

Will oil have its place in future – yes. Certainly not as much in volume as it does today, but it will. Especially in the first years of the shift of the entire economic structure to "green". Is it realistic to expect the dominant energy structure to be renewables by the planned 2050? And yes and no. That if you take all the facts that the global-political lobby has realized that there is nothing good from the current rapid increase in global warming, and global warming is a reality, then strong interest decisions by the largest multinationals to switch to renewables. No, if you take the fact that for the last thirty- or forty-years things have not changed significantly in structure, in the context of how much the world still depends on oil, coal and gas as an energy source.

About 25 percent of the total structure of carbon dioxide emissions is on transportation. As a problem, the already present production of electric vehicles could arise here. In the last few months, interest decisions have been made by multinational companies, those related to the automotive industry, that in the next ten to fifteen years the complete automotive structure as it is known to the world will be thrown out. These are all expected decisions in relation to state plans and programmes to reduce global power. Such decisions and already immediate increases in the production quotas of electric vehicles could cause a longer-term problem in terms of supply and demand. Thus, it could be lightly that supply greatly exceeds demand, which would ultimately lead to negative cash flows of companies, a reduced liquidity structure and the potentially diffuse bankruptcy of such companies. All this is a game on behaviour – Governments want to achieve their zero carbon targets, and on the other hand hope that consumer habits will change [4]. Thus, in the long term this poses a risk, largely, but it also presents an opportunity – the mass production of electric cars, hybrid, electric charging

stations, batteries for such purposes, will make the price more affordable, and on the other hand the increase in the price of oil itself will accelerate this transformation into renewable energy sources, forced through the laws of supply and demand.

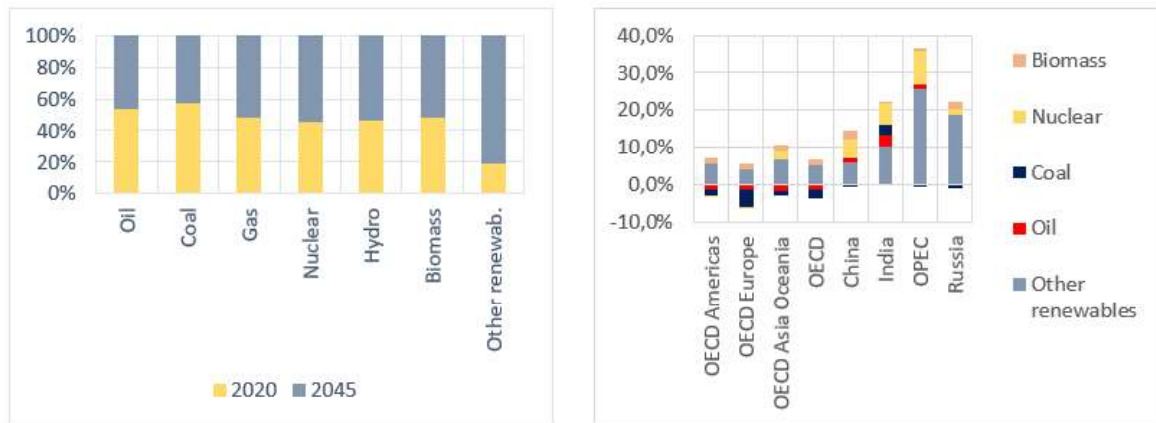
Table 1. View on internal decisions at some car companies

Car manufacturer	Production target	Target year
<i>VW Group</i>	30% of total global sales of electric vehicles	2030
<i>GM</i>	100% of global sales to be zero-emission vehicles	2035
<i>Kia</i>	Electric vehicles to account for 40% of global sales	2030
<i>Ford</i>	100% of European vehicle sales to be battery electric	2030
<i>Honda</i>	2/3 of global vehicle sales to be electric	2030
<i>Volvo</i>	100% of new vehicle sales to be fully electric	2030
<i>PSA Group</i>	100% of vehicles to be electric	2025

Source: authoring via Rystad Energy

Switching to clean energy sources will be a challenge for the overall structure of the global economy, but especially for those countries that are budgetary living off oil. In the first place, this primarily refers to the Middle Eastern countries whose oil exploitation costs are higher than in the US, for example, as well as some South American countries. If the rest of the world is going to move expansively into investments to change its economic structure, and it will because it must, then all those countries that are oil-rich reserves have a big problem, because their reserves are becoming relatively unusable. Explained, all future oil sales will have a significant impact on the fiscal calculation of all countries that depend on it and whose bulk of national GDP is oil exports. For this reason, it is said that this will be a challenge for everyone, but especially for oil-dependent countries, as there could be significant economic difficulties and social turmoil.

It is now impossible to think that one Saudi Aramco, with \$230 billion in revenue, would go bankrupt, but it would be felt significantly on the fiscal calculations of oil, and consequently employment and liquidity, but also in the overall picture of Saudi Arabia. Such a situation could lightly cause catastrophic consequences, from renewed waves of migration from just such oil-based environments and its exports to the loss of national recognition.

Fig. 5. World energy demand by fuel type, 2020. – 2045.

Source: authoring according projections via OPEC

From the beginning of the story, estimates were mentioned of how much the world would lose revenue from the transition to renewables in the next twenty years - \$13 trillion. Structural losses will go from 40% to 80% on the balance sheets of those countries that are imported and export-dependent on oil, the only question is how dependent they are. Countries such as the US, Nigeria or Azerbaijan could suffer losses of up to 40%, Azerbaijan's fiscal calculation is clear on oil, but its main revenue structure is still gas. On the other hand, in order of all the middle eastern countries that are strong oil players, they will have losses of 60 to 80% on their balance sheets - Iraq, Saudi Arabia, Kuwait. The key is diversification. Such states, the sooner they start implementing infrastructure projects other than oil or gas, will have faster and easier adjustment to renewables. This would primarily involve educating the legislature and then implementing projects. For many decades, oil has been a geopolitical issue, synonymous with the struggle for leadership on the world stage. Today, this story comes to renewables faster and faster. China is the current global leader of renewable generation and consumption and is making every effort to establish itself as such in the distant future.

REVIEW OF THE GOALS SET AND THE RESULTS OF THE RESEARCH

The aim of this research paper was to offer fresh insight into the state of geopolitical relations regarding oil in the beginning of the pandemic, as well as to explore the potential reasons why renewables are imperative and future, but also why oil will have its place in that future.

The price war with oil between Russia and Saudi Arabia has referred us to two conclusions; the first conclusion is that their decisions not only greatly damaged their own budgets, but also deepened the negative gap in the effect of the virus on the global economy. Thus, they created a temporary and short-term effect of inflation while the depth of temporary and short-term stagflation of the

economy, which ultimately affected the increased financing of the global economy. The second conclusion showed that the Middle Eastern states are in long-term danger if they do not start investing and implementing projects related to the reduction of oil dependency, here it is not one part of macroeconomic indicators, but the overall macroeconomic picture, because 60 or 80% of GDP covered by oil means that it is related to both purchasing power, and the price of exports and consequently the employment picture. Such oil-rich countries will have to start adapting their future operations as soon as possible to be as resilient as possible to future market volatility, through diversification. Their biggest problem in the structure of the economy, going back decades, are the obstacles that hinder them in the implementation of innovation and the progress of personal and corporate entrepreneurship. That is why they will have to go into reforms of such national economies that have hidden unproductiveness and waste of public money all these years, to be able to talk about the successful development of green energy

A review of the set thesis regarding oil and renewable sources has shown that in some segments of the business there are already more significant risks, since such risks must be incorporated into the future planned implementation of projects and business planning. Whether shifting the global economy to "*green*" due to the reduction of half-life is imperative and the future - is, will oil have its place in twenty years from now - will. To be clear, this is not just about good intentions to slow down and/or reduce the impact of global warming, it is also a new world order. In terms of the exploitation and production of renewable energy sources, China is the current global leader. A country that has lost over 6% of its GDP since 2012 to implement green projects as successfully as possible. The same country can also make projections today that by 2030 a fifth of China's electrical needs will be from non-fossil sources. The market for cleaner energy sources is growing and becoming more accessible to the wider population, thanks precisely to stronger global demand for it. Who are the future leaders of the renewables market? Those countries that have started implementing their projects and investments – currently China, India, Russia, Norway, Sweden, Denmark, USA.

CONCLUSION

The impact of the virus has not only brought an in-depth gap of negative consequences for the global economy but has shown how a world with exhaust semicition into the atmosphere is congested. The lockdown of the global economy has also brought cleaner air in those countries that have the biggest problem with it – China, India. Reduction of exhaust gases into the atmosphere by more than 6%. So, without oil, there may be no present, but without cleaner energy sources, there is no future. Oil once again showed the current driver of economic progress and how strong it will play in twenty years, especially in future years of a strong green transition. The current global leaders in cleaner energy sources are rightly there, their long-standing plans and project implementations are serious, not only

to shift their economy to the green, but also to maintain their geopolitical position of leadership in the long run.

The biggest long-term problem of this could be those countries that are currently, and throughout their modern history, dependent on oil sources as the main revenue structure, but also geopolitical influence. For such countries, all the Middle Eastern countries are talked about here, this will be the biggest challenge because when oil covers national GDP with 60% and more then it is not easy to transfer all its business to another energy source, which means increased long-term expenditures for such implementation but also the regulation of legal guidelines itself. The geopolitical battle for oil is over, the battle for green energy begins.

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