

The Oil Price War During The COVID 19 Pandemic, The Moral Dimension

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Abstract:

The COVID-19 pandemic was and remains the fact that will forever mark human life. The damage presented by the spread of this virus can only be known or identified in the long term, by then the world is counting the health damage and loss to human sight without forgetting the impact on social and economic life. However, it would be useful to recognize the unprecedented efforts of states to provide treatment and medical equipment for their citizens, emphasizing the humanitarian nature of every action. A first analysis shows a huge paradox that we see when people die from COVID-19 a war has broken out between producers of black gold to sell the most oil even with very low prices in order to earn markets and may be targeting the economic collapse of a few countries. This article provides a global analysis of the moral dimension in times of crisis with the case study COVID-19 and the oil price war that overshadowed the ravages of the coronavirus pandemic.

Keywords: COVID-19, war, oil, , crisis, moral, economy.

1- Introduction

"A war" is how the French president labeled the COVID-19 pandemic. However the French economist Combe answered him by saying that it is not a war but a pandemic and that is more than enough. Beyond the choice of vocabulary and the war of words, the result is the same: it is a tragedy.

When we look at what is happening around the world, two points raise a lot of questions and lead us to analyze this situation. Paradoxically, in times of crisis and pandemic, two wars are still going on: the first one is about oil prices and the second is a traditional armed conflict, as is happening in Yemen and Libya.

As the world lives in a pandemic shock that kills thousands every day and where the common topics of discussion are containment or de-containment, the oil price war between the three main world oil producers has begun: Russia, Saudi Arabia and the USA.

Before we begin this transversal reading of the energy situation, which should not take place in times of health crisis, we just need to understand a few details. Indeed, on a large scale, the pandemic has slowed down the world economy by

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squeezing industrial activity in China, which is the engine of the global economy, having overtaken the United States for the position. With less demand for crude oil, oil-prices have crashed, plunging global markets into a severe crisis which has given the first sign of a global recession.

With oil prices falling substantially, the two largest producers and exporters, namely Saudi Arabia and Russia, have boosted their productions to make up for the fall in prices, unlike the USA, which consumes more than they produce. It is very clear that in this logic we risk to have oil in abundance on the oil markets, which would cause a constant fall in oil prices. This is a bad omen for small producers and shale oil producers like the USA. All of this though cannot answer the following question: why such at a time of a global pandemic?

1.1- The three determinants: USA, Saudi Arabia and Russia

1.1.a- USA:

The US are doubly affected by this collapse in prices. Indeed, American firms represent 50% of the Supermajors or Bigoil and any tangible drop in oil prices influences the American taxpayer. In addition, American production is based on shale oil, which is not profitable when a barrel sells below \$ 52 (Horvath, 2020). Two indicators allow us to measure the catastrophic situation of the American energy sector. The first one is that there is the strong depletion of the number of rigs since the start of the price collapse. The second one is the significant number of oil companies – 42 - that went bankrupt in 2019 which was 42 companies (Horvath, 2019).

No one knows if the tug of war between the United States and Saudi Arabia was a showdown between these traditionally and historically allied countries or a real conflict between them as was the case in 2016 under the Obama presidency. Indeed, the increase in production in Saudi Arabia to lower prices in 2016 was aimed at stemming the ramp-up of the production of American shale oil and a form of protest against the policy of openness of Obama's administration with Iran. The situation plunged oil prices below \$ 30, ruining the Russian economy already weakened by international sanctions for its military intervention in Ukraine.

1.1.b- Saudi Arabia:

MBS, the crown prince of Saudi Arabia, had planned an ambitious development plan for the kingdom based on economic and cultural openings, but with a heavy burden on state finances. Paralyzed by ostensibly high spending and an endless war in Yemen, the Prince was not at the end of his surprises with oil prices in permanent decline for a rentier state like Saudi Arabia. Indeed, the Saudi economy is very dependent on the petroleum sector, which contributes around

42% of the Kingdom's GDP, 87% of budget revenues and 90% of its exports earnings (International Monetary Fund, 2019). And as all misfortune never comes alone, the COVID-19 pandemic has forced Saudi Arabia to suspend the annual pilgrimage season, which provides foreign currency earnings essential to the Saudi economy (Krithika, 2020).

1.1.c- Russia:

For Russia three indexes come into play. First of all, Russia had planned a barrel of 42 US Dollars for its 2020 budget, which is significantly lower than than 2018's and 2019's budget which were \$ 69 and \$ 65 respectively (Vespierre, 2020). With this data and an average cost of extracting a barrel of oil at \$ 20, making it among the most expensive in the world, the Russian economy is asphyxiated. The fall in oil prices caused by the Saudi strategy has pushed the Russian government to adopt the same policy to compensate the drop in income by increasing oil production.

This situation is not new and reminds of 2016 crisis, as has been pointed out above. The combination of such a crisis, which is formalized with a decline in demand due to the confinement of more than half of the world's population, has raised a new problem which is: who will buy the quantity of additional oil? The response from OPEC and the G20 may have allowed the shock to be absorbed, but for how long?

1.2- OPEC plus which supplants to OPEC:

1.2.a- From OPEC to OPEC+:

A 'powerful cartel' is often the label that characterizes the organization. However, OPEC countries only provide 40% of world production, and non-OPEC countries such as Russia, the USA, and Canada produce the rest. Furthermore, OPEC draws its strength from the reserves that the member countries own and because they export more than they consume unlike countries like the USA. Led by Saudi Arabia, OPEC has become obsolete facing a new energy challenges such as shale oil or renewable energy. But beyond all this, OPEC faces the defection of members like Qatar as well as the non-respect of its recommendations as was the case in 2016 when Indonesia did not agree to decrease production, a contrario of Libya and Nigeria, whose production had already declined due to security unrest (Maisonnier, 2016).

However, since the 2016 agreement which marked the birth of OPEC+, it has become clear that OPEC is no longer the leader that holds the balance of the energy power and that its influence has moved to non-OPEC countries led by Russia and that the new form of OPEC + seems more credible and sounds the

death knell of OPEC doomed to disappear, unless if they adopt a new strategy to win back its world's position as a decision maker of oil and energy filed.

1.2.b- And the G20...

For the first time, neither OPEC nor OPEC+ were able to restore oil prices even with the drop in production. Indeed, it was not until the meeting of G20 energy ministers on April 11, 2020 that markets really reacted and stabilized before plunging again. The extraordinary meeting did not keep all of its promises except for a desire to stabilize the oil markets without giving more details, but it was enough to bounce prices up slightly. In the statement of the virtual meeting, the words COVID and pandemic appeared four times each (G20,2020), which reveals how marginal the health and human concerning were, thus raising doubts about the very questionable intentions of world leaders facing the pandemic in comparison to the economic issue relating to petroleum sector.

1.2.c- Why oil? why now?

Although the topic was treated and relayed by the international media and some academics, the craze on the energy issue in such profound health crisis remains incomprehensible, if it is not a preparation for the post Coronavirus which shows a possible detachment of political-economic world from the social reality. In practical terms, it should be noted that for a long time the price of crude oil has not been influenced by long-term contracts but rather to the pressure of the spot market or very short-term market. These markets also set the price of oil on a daily basis, which will serve as a reference for prices around the world. Concretely, the exchanges take place directly between seller and buyer who negotiate the differential between the price of the finished oil product and the price of crude oil but on a short term which does not exceed some days or some months, which means that the current prices concern sales for the month of May or June at the most. Furthermore, the spot markets are very reactive to media announcements, even misinformation, like other financial markets, which caused volatility in oil prices for a decade. Thus, a fluctuating market and an extremely volatile oil prices for the next days or months reinforces the idea of a possible world economy crisis, which pushes countries to prepare their economies for after containment. Following this argue, this finding reaffirms the idea of the collapse of human and moral.

1.3- A war that hides another

Classic wars, it is in this way that we can qualify those of Yemen or Libya, at a time when wars have taken several forms such as economic war, cyber warfare or biological warfare. The common point of these deadly conflicts is that they did

not establish a cease-fire, or did not respect it, at the time when COVID-19 was wreaking havoc. Unfortunately, these two countries are not spared from this disease.

1.3.a- Oil to fuel war: Yemen.

In Yemen, and since the start of the war led by Saudi Arabia at the head of a coalition of Arab countries against the Houthi rebels, a humanitarian and economic crisis has shaken the country, but not only Yemen. Indeed, Saudi Arabia underwrites a large part of the expenses of this war since the United Arab Emirates distanced itself, and Qatar was ordered to leave the coalition due to conflicts with the other Gulf countries. The Yemen war has become a real money pit for Saudi Arabia, which spends the billions of dollars from oil revenues provided by Saudi ARAMCO. Hence the importance of maintaining production capacities once the price began to decline, which gives it a geostrategic rather than an economic character. On April 9 2020 a ceasefire was announced unilaterally by the coalition, while the first case was detected on April 10, according to the announcement of the Ministry of Public Health and Population in Aden (Office of the Resident Coordinator and Humanitarian Coordinator for Yemen, 2020). The problem is that this truce did not last and the fighting immediately resumed. this interruption of the medical truce pushes Saudi Arabia to continue to support the financing of the war by the oil money, therefore more production with falling prices, and plunges Yemen into an unprecedented crisis.

1.3.b- War to get oil, Libya:

April 04, 2020 marked the first year from the Libyan National Army's offensive under the command of Marshal Khalifa Haftar. Neither the coronavirus nor even the fragile truce announced by Germany did not stop the large offensive against Tripoli on February 28, 2020. The reversal of the situation of the Libya's GNA forces to the latest attacks by Khalifa Haftar's forces is no doubt due to the support of Turkey. Besides the ideological commitment of Turkey, pro-Muslim Brotherhood against the government of Benghazi visibly supported by a part of Arab countries including Saudi Arabia and the United Arab Emirates, the economic and energy intentions cannot be omitted. Indeed, Libya has the largest oil reserves in Africa and ranks eighth in the world in terms of proven oil reserves that can be easily transported to Europe. Libya's largest oil fields are located to the west, which explains why Haftar's forces, in control of Eastern Libya, want to recapture wealthy western Libya. A war for oil in times of coronavirus, the title applies to Libya better than any place in the world. The war for oil continues and Libyan must resist to the civil war and the COVID-19.

2- Method and Tools:

Besides the fact that the article deals with an anthropological and sociological question like that of morality in times of COVID-19 crisis, it also bases the geopolitical aspect of the question as the relationship between countries and the geopolitics of energies.

As a result, and given the freshness and originality of the subject which means that there were no previous studies on the subject, the research was based on the analysis of information from newspapers, electronic press and specialized sites.

Content analysis as a working methodology was a very important method of analysis since it was impossible to do empirical research. Using this methodology, it was possible to extract a wealth of information for processing and analysis.

3- Results and Discussion

As the geopolitical aspect prevails in this research, it is important to point out that it was academically impossible to work without scenarios. In this logic it was necessary to think by scenario and not by hypothesis

With the success of OPEC +, OPEC lost its status as a leader and decision maker in the petroleum sector to the benefit of non-OPEC countries.

COVID-19 having tested not only global health systems but also unsuccessful economic systems.

With the exception of China all the economies of the countries have entered into recession.

At the highest level of pandemic alert, The humanitarian aspect of the pandemic has not silenced the guns in Libya and Yemen. Libya needs petrodollars for its war, and Yemen is the scene of a regional war that cannot continue without oil revenues from those who drive it.

The April 11, 2020 G20 report on oil supply and demand only mentions COVID 4 times as the pandemic is in full swing and it is it that caused the drop in demand for oil.

The crossing of these data and these results shows how much economic concerns take precedence over human values and that instead of triggering an oil price war, a common consensus between producers and producers and consumers would have arranged the parties without eclipsing the volume of health and human losses of peoples.

To this end two scenarios emerge :

- The first being that human values have collapsed and it is time for profits and gains for states, companies and individuals and that the future holds more surprises for us. In this sense, this attitude promotes individualism for people, on

the one hand, and nationalism as well as populism at the level of states and societies, on the other.

- The second scenario is that of an awakening of the consciousness of peoples with a pandemic which has lasted for almost a year and which is not likely to stop immediately. This situation pushes the leaders to change strategy and to think of the consensual methods to adapt the economic motricity to the needs of the people without blurring the human aspect. This situation should be more plausible with the electoral deadlines in various countries like the United States where the exit of the current president would announce the decline of nationalism the populism which marked several countries in the world.

4- Conclusion

In addition to the economic question which has taken over as well as the consensus between the members of OPEC + and the rest of the producing countries, the OPEC+'s agreement is a success and a milestone which will undoubtedly remain in the history of petroleum sector. It is an agreement that was not even possible between the members of the OPEC since the Algiers agreement in 2016 which knew some tumults since that time. But the facts are all there, at the time when thousands of people died of pandemics, presidents and heads of governments thought otherwise, seeing that they still worrying about economy and energy security even in time of human crisis. How to deal with a possible recession? how to make oil prices less harmful for producing countries while remaining affordable for importing countries?

The humanitarian question was not present at the summits and the ethics were even less considered. This is where we must speak of the masks that fall and that the real concern of the leaders of a planet in a health crisis is none other than the fear of an economic crisis that will prevent their states, their firms and their businesses to make greater profits. Following this gesticulation the oil markets did not react as leaders wanted and COVID-19 gained more ground. All in all, the effort made to raise the oil price should have been oriented to lower the spread of the coronavirus because now and after all efforts the oil prices are plunged under zero for the first time in history, which means that sellers must pay buyers to take barrels for the WTI crude oil futures delivered in May 2020 (December, 2020).

We cannot say if the problem lies in the leaders or the crowds who would accept such acts, but the fact is there with a French president who speaks of war, of Trump who threatens if the oil prices do not rebound and a Boris Johnson with a speech of fear on COVID-19, which mentioned the economy again. 45 years earlier, "Moral Equivalent of War" was Jimmy Carter's speech on the oil crisis, another president of another time, was he right?

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