

The Oil Market and the Pandemic

An Analysis of the Price Collapse, Effects and Responses in LAC

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Carlos G. Sucre and
Paola Carvajal

This technical note reviews and analyses the collapse in oil prices over the first quarter of 2020 and its direct relationship to the spread of the COVID-19 pandemic. It discusses the technical, practical, and financial measures that companies in the oil and gas sector throughout Latin America are implementing to address the situation. These actions are being undertaken largely to keep revenues stable in order to secure access to funds that governments will require to address the pandemic-induced economic crisis and finance the subsequent recovery.

JEL Codes: Q4, Q41, Q43

Keywords: oil & gas, oil price, COVID-19, oil market, energy economics, geopolitics

Introduction

Since December 2019, the impact of the COVID-19 pandemic has extended to nearly every sector of the global economy, with serious impacts on healthcare systems, travel infrastructure, labor markets, manufacturing capacity, the services industry and many others. At the same time and as a direct result of the spread of the virus throughout the globe, crude oil prices have fallen by around 50%, with the benchmark for the United States market – West Texas Intermediate – notoriously reaching negative prices on 20 April 2020.¹

Though it is certainly true that the oil market is accustomed to high levels of volatility caused by the interplay between supply and demand and by myriad other variables, including geopolitical events and financial speculation, the main cause behind this price collapse is – as we argue in this note – the wholly unprecedented disruption in market fundamentals that the COVID-19 pandemic has introduced.

As is well known, Latin America and the Caribbean region is a major player in the global oil market as it is home to several large producers (led by Brazil and Mexico), other important producers (Colombia, Venezuela, Ecuador and Argentina) and some of the planet's largest oil reservoirs (Venezuela, Brazil). Despite the size of its production and reserves, however, the region is not a price setter for the global oil market and thus is exposed – to varying degrees – to the ups and downs of the market, generating important challenges to the national oil companies (NOCs) and owner governments for the proper management of the sector and its impacts throughout the region.

In this note, we start with an analysis of the behavior of oil prices over the last decade but with particular attention to the past semester and an evaluation of the causes of the collapse over this time. In the second half of the paper, we provide some perspectives for the global oil market over the rest of the year and then close by discussing some of the technical and sector-specific measures that governments in Latin America and the Caribbean have taken to navigate these turbulent waters in the oil market, all while facing the many challenges of the COVID-19 pandemic ongoing at the same time

Causes and Context of the Price Collapse

In order to bring the 2020 price drop into context, it is useful to compare and contrast it to the 2014-16 price adjustment, which is the last time that oil prices dropped in a large proportion without a return to previous levels. In 2014, a global slowdown of actual and expected economic growth created jitters in global markets, and particularly in oil markets, where the price of oil had been bolstered through supply management practices carried out by Saudi Arabia and its partners in the Organization of Petroleum Exporting Countries (OPEC).² Indeed,

¹ For a concise and excellent explanation of this phenomenon refer to Andy Powell's blog note on the Inter-American Development Bank's website

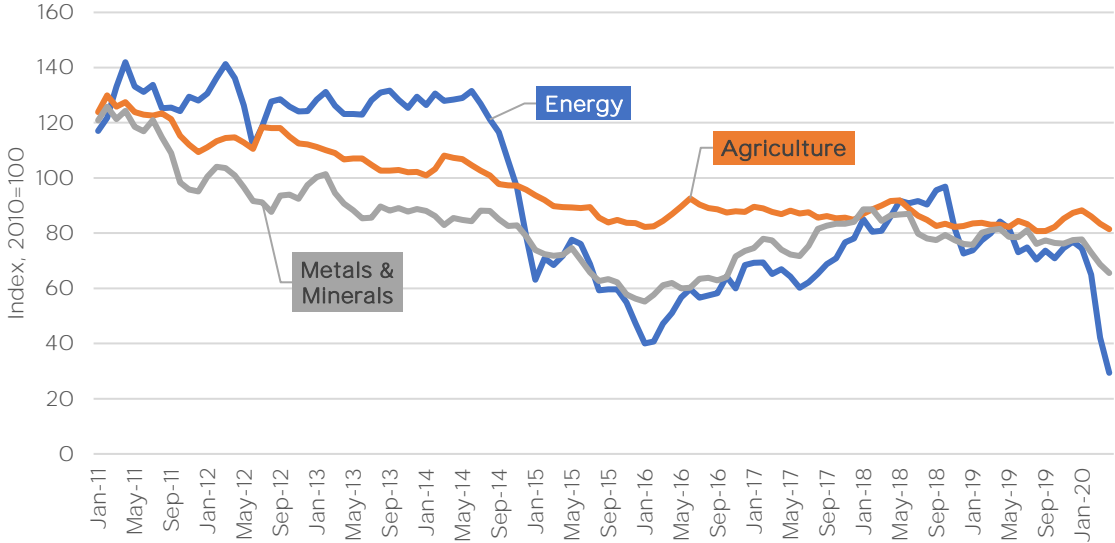
² Espinasa & Sucre (2014)

as prices for other commodities began to slide down starting in 2011 in reflection of the global slowdown in demand for raw materials, the price of oil hovered around \$100 per barrel between 2011 and 2014 (see Figure 1).

Similarly, in 2019, a sluggish global economy had been warning of a decline in global demand for oil in the short term. Then, the rapid propagation of COVID-19 at the end of 2019 and the start of 2020 in China, the world’s most important oil importer, had a significant impact on its demand for oil, lowering it from 15.17 million barrels per day (mbd) in December 2019 to 11.16 mbd by March 2020.³ As a result, the oil price declined slightly in the first two months of the year, with Brent oil dropping from \$68 per barrel in the first week of January to \$54 per barrel in the last week of February.

This happened notwithstanding the turbulence created by global geopolitical events like the impasse between US and Iran over the killing of General Qasem Soleimani that normally have the effect of raising oil prices. The subsequent spread of COVID-19 to other large economies in Europe and North America added to the continuous decline trend in oil prices.⁴

Figure 1 | Energy, Agricultural and Metals & Mineral Commodity Prices



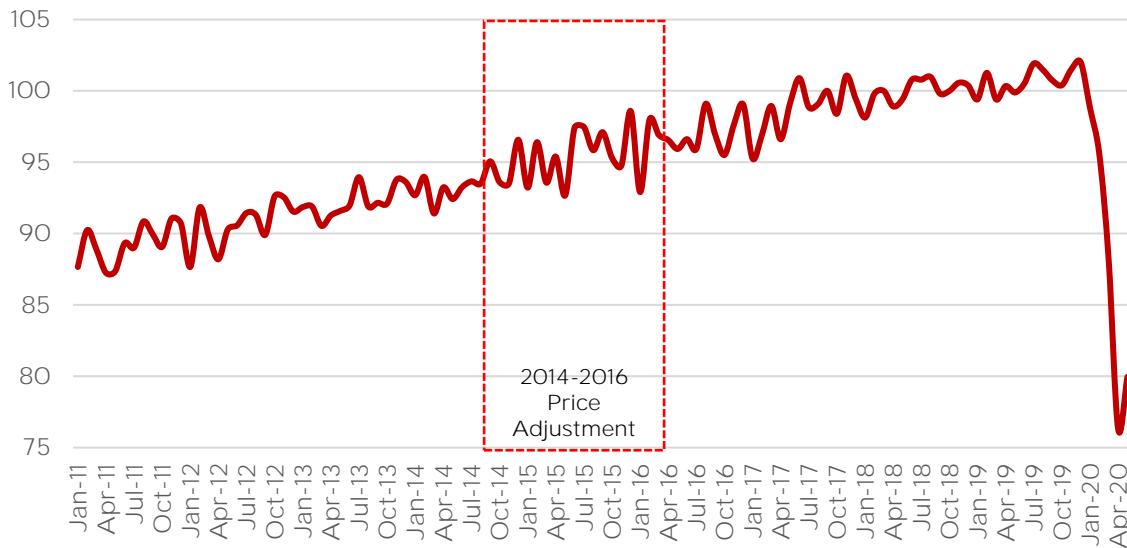
Source: World Bank

It is there where the comparison with the 2014-16 event – large economies showing signs of slowing growth that lead to declines in the price of oil – ceases to be useful with regards to demand and where the contrast becomes more relevant.

³ U.S. Energy Information Administration Short-Term Energy Outlook, June 2020

⁴ Kumar (2020)

Figure 2 | Global Oil Demand, million barrels per day (January 2011 – May 2020)



Source: U.S. Energy Information Administration

Indeed, let us note that between September 2014, when the oil price started to decline, and February 2016, when it reached its nadir and began to recover and normalize around \$50 per barrel, demand for crude in fact grew by nearly 3 mbd. This price adjustment between 2014 and 2016 actually reflected an excess in supply – particularly from the booming shale patch in the US – not a collapse in demand. It was indeed an unexpectedly strong and sustained growth in supply paired with concerns over insufficient demand that was most directly responsible for the downward adjustment in prices over that period.⁵

Figure 3 | Price of Brent crude oil, US\$ per barrel (January 2011 – May 2020)



Source: US Energy Information Administration

A second useful comparison between 2014-16 and 2020 lies in the trigger to the rapid and massive collapse in prices in both events: a refusal by large producers

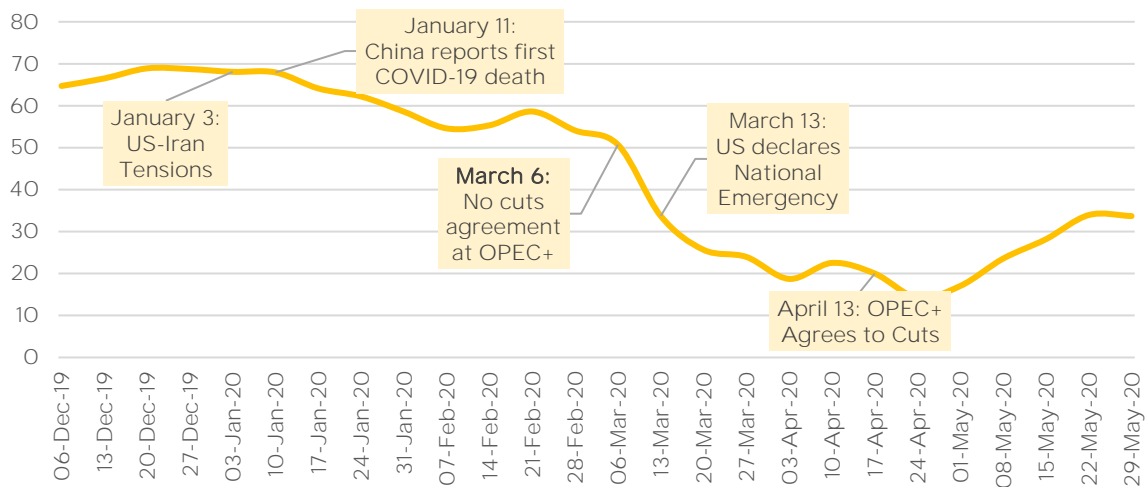
⁵ Espinasa & Sucre (2015)

to support the price by the usual means of supply reductions (see Figure 3 and Figure 4). In 2014, it was Saudi Arabia and OPEC that surprised the markets when they announced their unwillingness to reduce output and thus triggered a decline of 30% in oil prices over the last two months of that year.

In sharp contrast, between December 2019 and April 2020, global oil demand has fallen by an estimated 25.7 mbd (see Figure 2) – which is nearly 10 times larger than the biggest ever recorded global annual demand decline of 2.6 mbd in 1980, in the middle of a global recession and at the start of a decade-long global oil demand downturn.⁶ It is important to note that this 25.7 mbd figure is only an estimate and several specialized consulting and trading firms have estimated the demand drop above 30 mbd.

In 2020, it was a largely unexpected⁷ disagreement between Saudi Arabia and Russia – two of the three largest oil producers in the world, along with the United States – over output cuts as a response to the rapid decline in demand that showed no signs of abating. Markets expected that Saudi Arabia, Russia, and other large producers – which had started to cooperate after the 2014 price collapse in an informal alliance that has come to be called OPEC+ – would reduce output, rebalance supply and demand, and thus stabilize prices.

Figure 4 | Price of Brent crude oil, US\$ per barrel (December 2019 – May 2020)



Source: US Energy Information Administration

While the forensics of the causes and reasons for that initial disagreement within OPEC+ makes for interesting discussion, for our purposes it suffices to understand that the expected cuts in production did not happen and that, instead, both Saudi Arabia⁸ and Russia⁹ (and several other oil producers in OPEC+)¹⁰ announced plans to increase output. In essence, the competitive market structure that started to

⁶ Energy Intelligence (24 March 2020)

⁷ OPEC (6 Mar 2020)

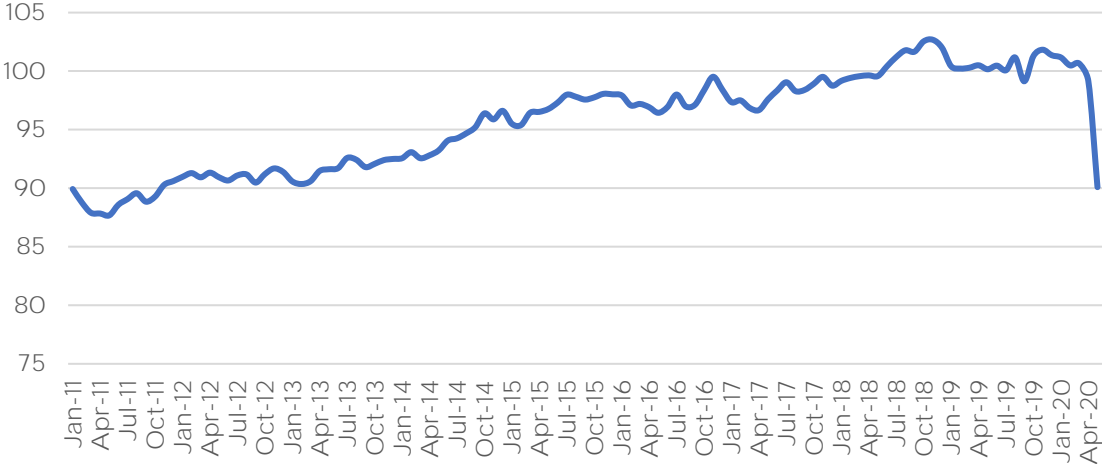
⁸ Meredith (2020)

⁹ El Gamal et al (2020)

¹⁰ ADNOC (2020)

emerge¹¹ during the 2014 price downturn with shale oil producers in the United States setting – or at least heavily influencing – the general price level¹² became even more competitive, with the Saudis, Russians, Kuwaitis and others in open contest amongst themselves and the rest of producers (see Figure 5).

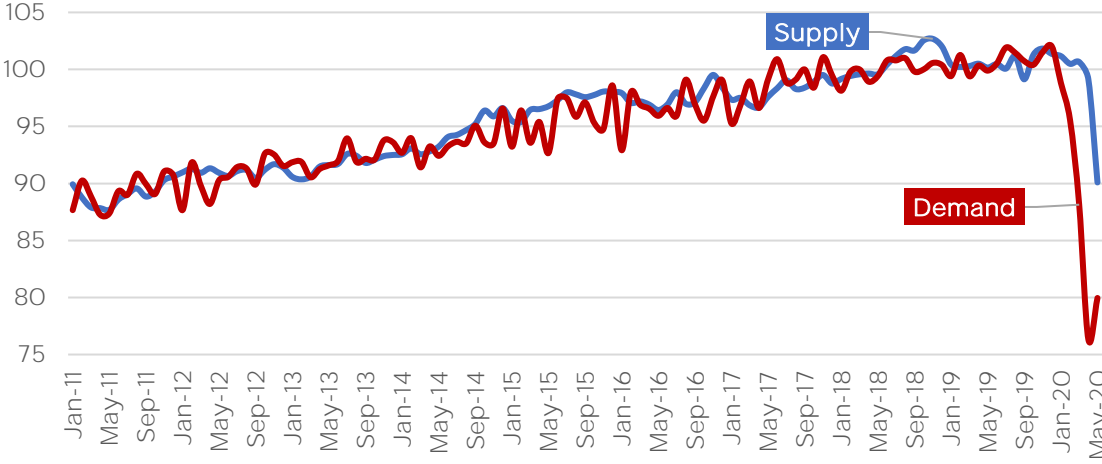
Figure 5 | Global Oil Supply, million barrels per day (January 2011 – May 2020)



Source: US Energy Information Administration

A month and a half later, however, these same producers reconvened and taking into consideration the continued collapse demand for their output, agreed to cut production starting in May 2020 by 9.7 million barrels per day.¹³ This reduction – the largest ever agreed to, in relative and absolute terms by OPEC and others outside the group – initially did not prove sufficient to calm the markets: indeed, the price for Brent closed the trading week following the announcement \$1.5 per barrel lower.

Figure 6 | Global Oil Demand and Supply, million barrels per day (Jan '11–May '20)



¹¹ Espinasa & Sucre (2014)

¹² Espinasa & Sucre (2015)

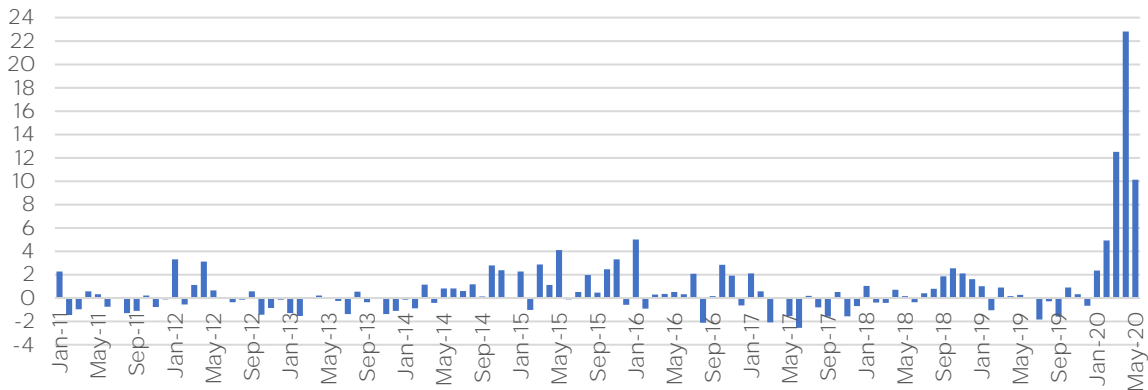
¹³ OPEC (12 April 2020)

Source: U.S. Energy Information Administration

This initial apathetic response from the market was due to the fact that the market imbalance (see Figure 6 and Figure 7) was so large that commitments to reduce output cannot occur quickly enough to match supply with demand. While a decline in purchases of oil and its derivatives can happen relatively quickly as consumers, from one day to the next, reduce their travel and remain indoors, the same cannot happen on the supply side: an oil field must continue to pump or decline output slowly in order to keep the geology and infrastructure of the field in good health. Shutting down wells is a costly endeavor and oil companies are logically reticent to do that, especially given the widespread uncertainty regarding the COVID-19 pandemic and resulting restrictions.

In the month and a half that has passed since that second OPEC+ meeting where substantial cuts were agreed to, the price of oil has started to partially and meekly recover as the imbalance in the market subsides. Along with the cuts pledged by OPEC+ and caused by market pressures on non-OPEC+ producers, like the US or Canada, the removal of restrictions put in place to deal with the COVID-19 pandemic in certain markets that have boosted demand from its basement levels. These two developments have caused prices to average more than \$30 by the end of May.

Figure 7 | Global Oil Market Oversupply, million barrels per day (Jan '11 – May '20)



Source: US Energy Information Administration

Global Perspectives for 2020

There is a plethora of questions that stem from such a rapid and dramatic change in the price schedule of the world's most important commodity. For now, we will focus on what might the global oil market hold for the rest of 2020 and what this new reality means for Latin America's oil and gas sector, which is central to several economies in the region.

Addressing the global perspective first, as the COVID-19 pandemic carries on globally, there is tremendous uncertainty on the timing of a return to pre-

pandemic levels for global oil demand.¹⁴ Several measures adopted by large oil consumers like China, the US and European countries have impacted oil consumption particularly because social distancing, quarantine policies and mobility restrictions all reduce demand for large oil consumers like transportation (land and air) and industry.

All these restrictions to address the pandemic have had serious economic consequences. According to the International Monetary Fund's World Economic Outlook released in April 2020, the global economy is experiencing the worst economic recession since the Great Depression. The projection for year-on-year global economic growth is a contraction of 3% - about 30 times greater than the contraction during the 2009 financial crisis – with the pandemic affecting both advanced economies and emerging markets.¹⁵ For the Latin America and Caribbean region, the forecast growth rate is -5.2%.

While the IMF forecasts a 5.8% global economic growth rate for 2021, that is dependent upon strong policy actions that effectively prevent “widespread firm bankruptcies, extended job losses, and system-wide financial strains” and, more importantly, on the pandemic fading in the second half of 2020.¹⁶ This is important for oil markets because the pandemic is showing signs of abating in some regions, like China, that are important importers while still growing in others. This gives some reason to expect some recovery in oil demand in that market and potentially allowing for prices to bounce back slightly, most likely at a level slightly above the US\$30 per barrel mark reached and passed during May.

On the supply side, the issue is slightly more complex because the capacity of each producer to maintain output depends on its breakeven prices (which vary from company to company, field to field, and country to country), its physical limitations (which are in turn limited by available finance for operational expenditures), and by storage capacities (which are near their limits given the collapse in demand¹⁷). Large oil producers throughout the world are facing a situation where they will reduce output either because of government mandates – as in the case of Saudi Aramco,¹⁸ Rosneft,¹⁹ or Kuwait Oil Company,²⁰ for example – or because of severe market pressures and bad economics – as in the case of ExxonMobil, Chevron or Occidental Petroleum, for example.²¹

¹⁴ International Energy Agency (2020)

¹⁵ International Monetary Fund (2020)

¹⁶ Financial Times (2020)

¹⁷ Reuters (18 March 2020) Oil industry may fill global storage in months as record glut builds

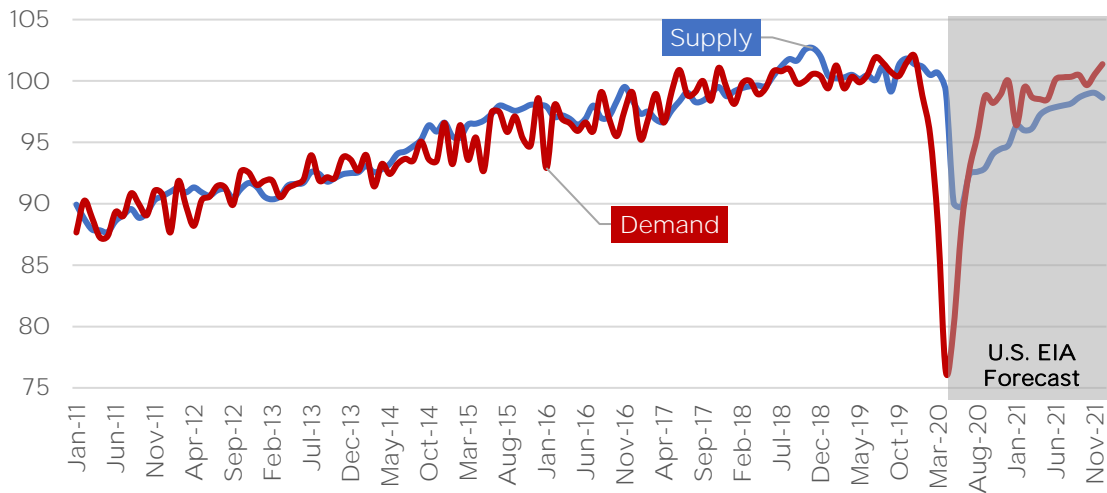
¹⁸ Bloomberg (2020-04-25) Saudis Begin Curbing Oil Output Ahead of OPEC+ Start Date

¹⁹ Reuters (2020 April 24) - Russia halves Western sea oil exports in May after OPEC+ deal

²⁰ Bloomberg (23 April 2020) Kuwait Cutting Oil Output Ahead of Schedule, Minister Says

²¹ Reuters (24 March 2020) Chevron leads another wave of massive oil-industry spending cuts

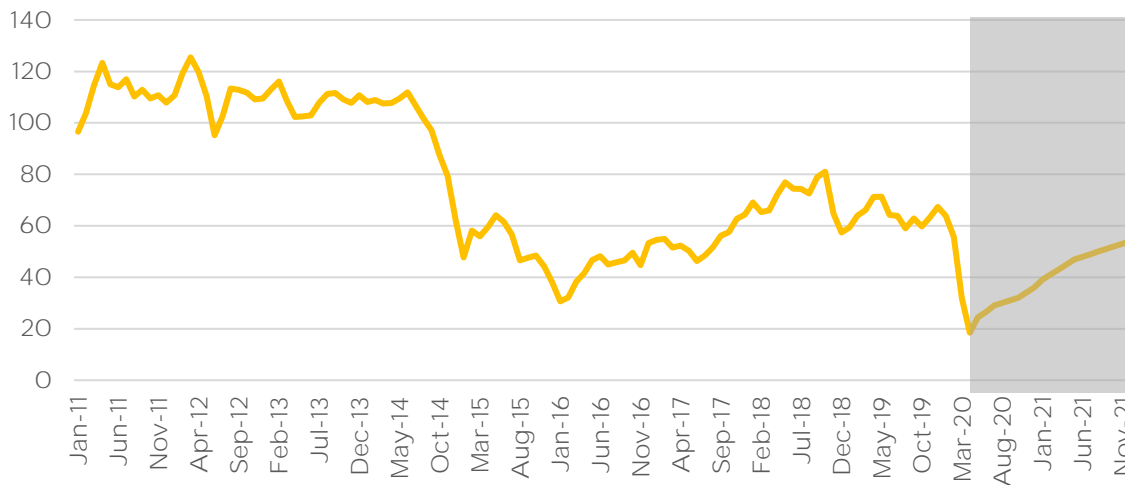
Figure 8 | Global Oil Supply and Demand with Forecast, million barrels per day



Source: US Energy Information Administration

In general, the expectation is that as the pandemic passes, demand for oil would start to recover – as we are beginning to see in certain Asian markets²² – while the market pressures and government mandates reduce production by more than 10 million barrels per day over the next 3 to 6 months, by the start of 2020 supply and demand schedules should rebalance (see Figure 8). The direct consequence of this would, of course, be a recovery in prices towards the last quarter of 2020 and the first quarter of 2021 to around US\$40 per barrel for Brent crude oil (see Figure 9).

Figure 9 | Brent Monthly Oil Price Forecast post April 2020



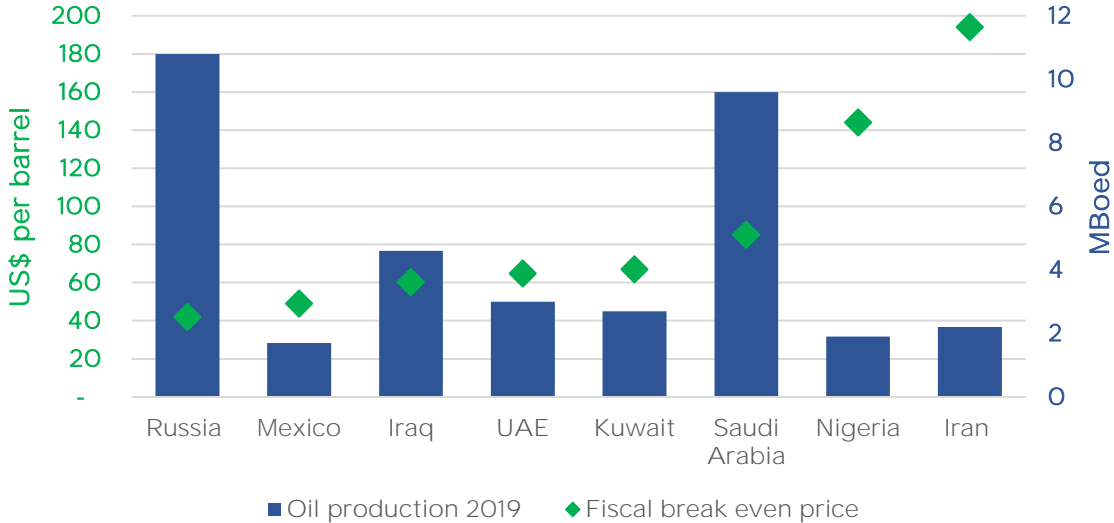
Source: US Energy Information Administration

This is an uncomfortable price range for most oil producing countries and the rapid decline over the course of March 2020 made that very clear to members of OPEC+, eventually driving them back to the negotiation table and reaching the

²² US Energy Information Administration Short-Term Energy Outlook, June 2020

aforementioned agreement.²³ A recent analysis on external breakeven prices – the price that a country needs to pay for imports and balance external accounts (see Figure 10) – places it at \$85 per barrel for Saudi Arabia and \$41 per barrel for Russia. There are laggards, however, including Iran (\$190 per barrel) and Iraq (\$60 per barrel).²⁴

Figure 10 | Fiscal Breakeven Prices and Oil Production, 2019



Source: Reuters (using data from IMF, Fitch Ratings, official figures, Refinitiv) and U.S. Energy Information Administration Short Term Energy Outlook June 2020

Under such conditions and with fiscal breakeven prices generally much higher, oil producing countries will face a tremendous revenue shock in the last three quarters of the year and will be forced to draw down international reserves, go to international capital markets to raise funds, increase their tax revenue and/or reduce spending.

The effect on high-cost producers like the oil sands of Canada, the offshore projects in the North Sea, the Gulf of Mexico, the Pre-Salt in Brazil and the shale patch of west Texas²⁵ or North Dakota are being readily felt, with major companies all over the world announcing reductions in production and spending.²⁶ Estimates on the timing and the scale of production declines for 2020 stemming from fields like these going offline can vary widely as their response time depends on the type of field (shale, conventional onshore, offshore, etc.) and the market structure under which they operate, to name but two of the variables.

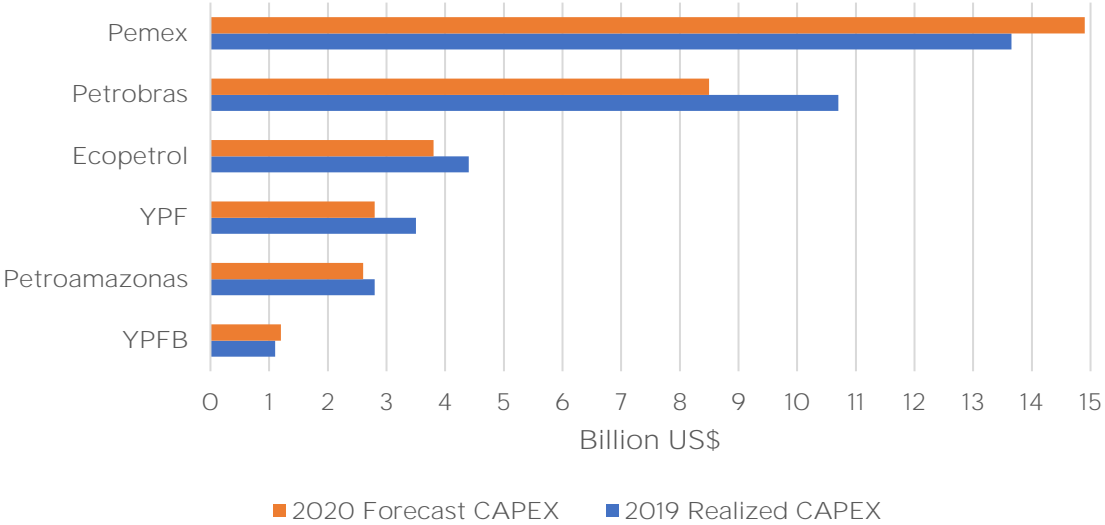
On Latin America’s Oil Market

²³ Saudi Press Agency (18 March 2020)
²⁴ Reuters (2020)
²⁵ Bloomberg (18 May 2020)
²⁶ Financial Post (18 March 2020)

This leads us into Latin America and the Caribbean (LAC) and allows us to examine the potential impacts of this price decline on the region. The low oil prices effect can be analyzed in two critical aspects: industry and government.

From the industry perspective, current prices are forcing oil companies to reduce their operational and investment budgets (see Figure 11), thus limiting the capacity to comply with production and financial returns targets.²⁷ From the government perspective, the oil price decline impacts fiscal revenue, export values and economic activity in related sectors.

Figure 11 | CAPEX for Large NOCs in LAC in 2019 and 2020

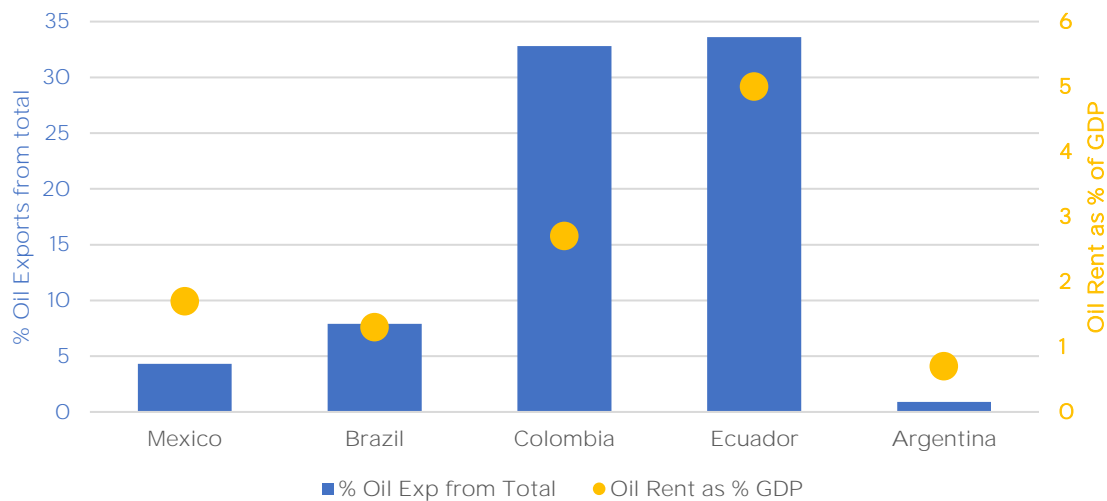


Source: BN Americas

The magnitude of the price shock in the region is diverse as it depends on the oil sector’s weight in the economy and on the strategies that the different countries have adopted to mitigate the effects of volatility. In countries like Ecuador, Venezuela and Bolivia, the fiscal revenues from hydrocarbons over the last ten years have averaged over 10% of GDP and the hydrocarbon exports represented more than 30% of the region’s total exports (see Figure 12).²⁸ In countries where oil revenues are the main source of fiscal income, governments will be forced to adopt extraordinary measures to rebalance spending, which can have adverse effects in the ability of other sectors to address demands created by the COVID 19 crisis.

²⁷ Energy Intelligence (2020)
²⁸ IDB (2020)

Figure 12 | Weight of Oil Sector Rents and Exports in Selected Countries



Source: World Bank Data

Mexico's oil sector is heavily exposed to the international oil market with Pemex, the national oil company, producing 1.8 mbd in 2019²⁹ and exporting crude oil to the US and other destinations. Indeed, the reference price for its oil exports – made up mainly of a heavy crude oil blend called Maya – dropped from over US\$50 per barrel in January to under US\$20 per barrel in April,³⁰ and also reached negative prices on 20 April, as the Mexican reference price is heavily tied to WTI. In 2019, Pemex reported an average production cost of US\$14 per barrel,³¹ but to have profitable operations most of the producing fields need prices of at least US\$35 per barrel because of taxes and indirect costs.³²

Pemex has taken a central role under the current administration, and has concentrated mostly on production growth, reserve additions, and refining, with the Refineria Dos Bocas project playing a central role in that regard. Particularly under this price downturn, one of the challenges for the company will be to continue raising capital and meet the debt obligations as Pemex's income sharply declines while its credit rating has been downgraded.³³

Brazil, the largest producer in the region, has seen reduced production from high-cost fields. The country produces 2.8 mbd primarily from offshore fields and more than 60% of the production comes from the Pre-Salt reserves off the coast of Rio de Janeiro.³⁴ Its national oil company, Petrobras, announced a reduction in output of 200,000 barrels per day in April and forecasted capital expenditures for 2020 of US\$8.5 billion, a reduction of 20% from its 2019 levels (see **Error! Reference source not found.**). Also, Petrobras is in the process of divesting from assets in the international upstream oil market, the domestic natural gas sector and the

²⁹ US Energy Information Administration Short Term Energy Outlook June 2020

³⁰ Banco de México (20 May 2020)

³¹ Garcia (2020).

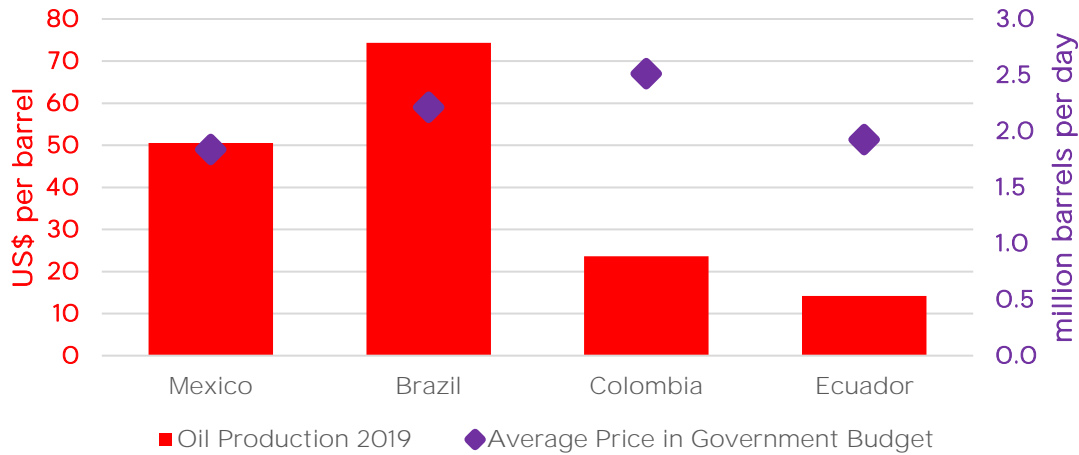
³² Sucre & Carvajal (2020)

³³ Harrup (2020)

³⁴ Petrobras (2019).

domestic refining sector, but the current economic downturn will require the company to reassess and likely delay the divestment process to secure expected returns.³⁵

Figure 13 | Average Oil Prices in Government Budget 2020



Source: Inter-American Dialogue

The most dramatic effects will be felt by the most weakened oil producer in the region: Venezuela. Already experiencing inexorable declines in output stemming from decades of mismanagement and a much-diminished export market, in part because of sanctions imposed by the U.S. government, this price collapse is a heavy, additional burden on the Venezuelan oil industry. The Venezuelan basket has turned heavier and sourer over time, leading to continuously declining quality and thus fetching prices that can average as much as US\$20 below Brent crude. This means that Venezuelan at the lowest point for prices this year - during April 2020 – was selling its oil around US\$8 to 12 per barrel – depending on the quality of the crude – and with production costs averaging around US\$10 to 12 per barrel, Venezuela may be losing money on every barrel it sells.³⁶

Colombia’s hydrocarbon sector is experiencing a sharp decline in the exploration and production activity. The country produces 0.9 mbd and Ecopetrol, the national oil company and largest producer with around 0.7 mbd, reported in 2019 an average cost of production of US\$35 per barrel³⁷ stemming from the fact that most of Colombia’s production is heavy oil produced in mature fields that requires diluent to be transported from the Llanos region to ports. Current plans to increase production through investments in enhanced oil recovery and new areas will be challenged and the company may close some producing fields. In fact, the company announced a reduction in CAPEX for 2020 of US\$1.6 billion. Similarly, the Colombian Petroleum Association (ACP) has estimated a reduction of 60% in exploration and 55% on production investments in 2020 for the rest of the sector’s oil and gas companies.³⁸

³⁵ BN Americas (5 May 2020)

³⁶ Sucre & Carvajal (2020)

³⁷ Ecopetrol (2020).

³⁸ Forbes (22 April 2020)

Ecuador's hydrocarbon sector has been struggling not only because of the oil price crisis but also due to the rupture of the OCP and SOTE oil pipelines, its main links to international markets.³⁹ In 2019, Ecuador produced 0.5 mbd and exported most to Asian companies through long term contracts. Petroamazonas, the national oil company and the main player in the sector, reached an output of 0.42 mbd in 2019, with an average production cost of US\$18 per barrel.⁴⁰ The current price environment makes several fields unattractive but as the country has long-term selling commitments, Petroamazonas kept most fields operating until the pipeline disruption in April 2020. Due to the lack of pipeline capacity, the company reduced production to 65 thousand barrels per day and closed multiple fields. Production will restart in May but cuts in personnel and budget because of the crisis could impact the recovery.

Countries with large oil development projects in progress such as Guyana's offshore fields or Argentina's Vaca Muerta formation will see a significant reduction in new exploration and development investments.

In the case of Guyana, despite showing 18 oil discoveries in deep waters only the Liza 1 field has started production, in December 2019. Deepwater projects tend to be inflexible to market conditions because of most of the investment is upfront. Therefore, ExxonMobil – the leader of the consortium in charge of the project – is expecting to maintain current production schedules at Liza 1, complete Liza 2 (which would add 220,000 barrels of production by 2022⁴¹) but maybe delay other projects until oil demand recovers. Although it will receive additional resources from new production, Guyana will need to adjust its revenue expectations to new market conditions.

In the case of Argentina, the development of unconventional resources in Vaca Muerta are at high risk. Unconventional hydrocarbon production requires high and consistent investments to reach high productivity and returns. The national oil company, YPF, reported in 2019 breakeven prices of Vaca Muerta producing fields between US\$35-40⁴² per barrel. Therefore, market prices around US\$30 per barrel or lower harm investments in producing fields and new developments. As a result, YPF reduced around 50% of the production on Loma Campana and other key producing fields in Vaca Muerta,⁴³ and cut CAPEX for 2020 by US\$700 million.⁴⁴

Government Responses in LAC

As described above, the oil sector is experiencing one of the worst crisis in its history and governments in the region – particularly hydrocarbon regulatory

³⁹ Cohen (2020)

⁴⁰ Petroamazonas (2020)

⁴¹ ExxonMobil (2020)

⁴² YPF (2019)

⁴³ Mercopress (11 April 2020)

⁴⁴ BN Americas (5 May 2020)

agencies – have responded with different policies to support operations, the sector’s activity and employment in local communities. Below we describe some of the policy responses adopted in the region:

- **Contractual flexibility for investment commitments.** These measures aim to give more flexibility to investors (oil companies and service companies) in executing work plans committed in exploration and production (E&P) contracts to allow them prioritize investments in the higher return projects. Some adjustments include the extension of exploration and development phases or the option to delay investments.

For example, in April 2020, the National Hydrocarbon Agency (ANH) of Colombia adopted a plan to support the companies in the sector and it opened the option for companies to delay investment deadlines or redirect them in deferred exploration projects to other upstream activities.⁴⁵ Similarly, the National Hydrocarbon Commission (CNH) in Mexico extended the time to secure permits and plan approvals for E&P companies.⁴⁶

- **New contracting models and delay of bidding rounds.** Policy makers are in the process of reassessing the profitability to both companies and government of current contracting models and evaluating adjustments as required to maintain attractiveness for investors. In addition, the current uncertainty in the sector and low-price environment, have impacted most of the bidding round calendars that had been set to assign new areas and have caused delays and postponements to 2021. For example, the National of Petroleum, Natural Gas and Biofuels Agency (ANP) of Brazil delayed Bidding Round 17 for exploration and production contracts in 130 blocks until 2021.⁴⁷
- **Injection of new resources and fiscal relief.** Policy measures to provide liquidity to companies in the short term and stimulate or maintain economic activity. The Mexican government, for example, reduced the fiscal burden of Pemex and decided to carry on with its plans for strategic projects in the hydrocarbon sector to ensure the employment in the oil producing regions of the country.⁴⁸ The government of Argentina adopted in May 2020 a new oil price for domestic sales called *barril criollo* that guarantees a minimum price of US\$45 per barrel for light sweet crude with an objectives of keeping employment in the sector and output levels steady.⁴⁹ Other countries have provided flexibility to delay the payment of economic rights related to leasing fees training or R&D⁵⁰ and fast-tracking of rebates on value-added tax.⁵¹
- **Operational adjustments to address lower demand.** Operational procedures and regulations have been adjusted to acknowledge the lack of resources and

⁴⁵ Inter-American Development Bank (2020)

⁴⁶ Diario Oficial de la Nacion (2020)

⁴⁷ Agência Nacional de Petróleo, Gás Natural e Biocombustíveis (2020)

⁴⁸ Whelan (2020)

⁴⁹ Politi (2020)

⁵⁰ ANH (2020)

⁵¹ Deloitte (2020)

workforce operating in the sector because of the COVID 19 restrictions. For example, in Colombia midstream operators of public oil pipelines reduced their tariffs and offered financing to producers. In Brazil, ANP adopted new procedures to report and inspect hydrocarbon production and facilities.

Closing thoughts

The current situation in global oil markets is unprecedented and full of uncertainty. The collateral damage of this circumstance is large, and it includes Latin America's oil producers, which have very little control over the prices its products fetch. As with other producers around the world, Ecopetrol, Pemex, Petrobras and other NOCs throughout the region will have to cut costs dramatically, close unprofitable fields, seriously reduce exploration activities and the development of new fields.

Their owners – the national governments – will similarly have to take important steps given the reduced revenues from the oil sector that they will experience over the rest of 2020: raise funds in international markets, use international reserves to protect national currencies, and maintain balance between tax revenues and government spending. This is even more challenging given that it all happens during a time of increasing social demands and widespread economic crisis caused by the COVID-19 pandemic that will require careful and well-targeted interventions throughout the economy of each country with particular attention to supporting health systems or providing direct transfers.⁵²

The temporal expectation of this price situation is very much up in the air. We expect to see supply to decline towards the middle of 2020 as higher cost producers come out of the market given that prices under \$30 make operations untenable and this may bring some upward pressure to prices. As outlined above, the oil sector in some of the region's producers may find early relief in an environment where prices remain weak but recovered from the lowest points – Colombia, Brazil – while others will see their sector's performance in terms of output and investment remain heavily affected at least until prices return to pre-pandemic levels – Argentina, Ecuador, Mexico.

The demand side of the equation, however, remains much more clouded because though the pandemic seems to have slowed in China, India and other countries, leading to a relaxation of restrictions, it is now ongoing in other large markets and its effects are particularly strong in sectors with high demand for oil: transportation, heavy industry, air travel, etc. Lastly, it is important to note that even as restrictions are lifted with varying degrees, there is no vaccine currently available for the SARS-CoV-2 virus⁵³ and a resurgence of the pandemic remains a possibility.⁵⁴

⁵² Inter-American Development Bank (2020b)

⁵³ Amanat and Krammer (2020)

⁵⁴ Children's Hospital of Philadelphia (2020)

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