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A Green Recovery After Covid-19: New Strategies For The Oil Industry

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The pandemic has forced oil companies to have to rethink their strategies. Three factors have changed global markets: first, the demand for oil has dropped with the closure of workshops, factories and stores as well as the cancellation of many international flights, reducing consumption and the gross world product; second, large oil company share prices have dropped because the markets are wagering on a "green economy"; and, third, renewable energy sources cost two-thirds less per kilowatt-hour, while China can install these solutions at even more competitive prices.

According to the International Energy Agency, the global production of oil, gas and refined products fell 3.4% in 2020 compared to the previous year before the Covid-19 outbreak. This drop, however, was even more pronounced in Latin American oil-producing countries.

New strategies in oil-producing countries

In the United States, President Biden has prohibited horizontal extraction or hydraulic-fracturing (better known as fracking), though the country is still the world's largest producer of hydrocarbons. Decarbonization now has to begin, increasing the amount of energy produced by renewables. Many companies in the U.S. have become "green energy" distributers and closed coalmines which traditionally provided a cheaper source of energy.

Europe is substituting oil with liquified gas, sent by ship from U.S. ports. For its part, Germany is closing its thermal power plants which used to burn coal and dismantling its nuclear power plants, substituted by gas provided by Russia via gas pipelines.

The number of gas fields has increased at prices below that for oil fields in Africa, Australia and Southeast Asia. Meanwhile, Japan is also closing its thermal power stations and importing Russian liquified gas via tankers sent from Vladivostok.

Furthermore, no single emerging country can achieve sustainable development by exporting oil. The International Monetary Fund recommends these countries

Colombia's Finance Minister declared in March that the country needed to diversify its economy because it was overly dependent on extracting and exporting oil. He argued that it needed to further industrialize the economy given the drop-in income from oil exports as well as from tourism due to the pandemic.

The new strategy is for Ecopetrol to boost its investments in the U.S., increasing the oil extracted from the Permian Basin in Texas where it already has investments and which is more productive, in addition to being able to better meet U.S. market demand.

Mexico has privatized Pemex, while Brazil hasn't changed Petrobras' structure which is still a semipublic company. Brazil had to deal with growing inflation and sold fuel for domestic use below international fuel prices. These subsidies negatively affected the company's export capacity, and it had to take on additional debt in dollars. Elevated debt service costs harmed Petrobras, which experienced losses as a result.

In January, Colombia announced that Ecopetrol had made a public offer to buy shares in ISA Group for 4 billion dollars. To date, ISA is the largest electricity transmission company in Latin America with its own distribution network. However, some risks persist. The state company is considered the fifth-most experienced losses as a result.

In January, Colombia announced that Ecopetrol had made a public offer to buy shares in ISA Group for 4 billion dollars. To date, ISA is the largest electricity transmission company in Latin America with its own distribution network. However, some risks persist. The state company is considered the fifth-most vulnerable company if oil prices drop even further, according to data from the *Financial Times* and the Natural Resource Governance Institute.

Ecopetrol could become an energy company that dominates oil-extraction fields in Colombia and West Texas while also producing electricity wholesale with its own network and international connections, according to the *Financial Times*.

In turn, Pemex's private management has had positive effects on its profit and loss account, but, as one senior executive declared, to earn profits, the price of oil (West Texas Intermediate) should not fall below 40 dollars per barrel. Mexico's new President, Andrés Manuel López Obrador, has also had to neutralize scandals associated to Pemex.

Future perspectives

Oil companies are under extreme pressure to eliminate their greenhouse gas emissions. However, when oil prices drop, many private oil companies cannot pay dividends. Oil-producing countries in Latin America, especially in Mexico and Colombia, can no longer allow their economies to depend on oil revenues. This is already the case in the world's second largest producer, Saudi Arabia, which has diversified its economy by promoting modern industries.

Colombia and Mexico have also taken steps to stay ahead of this process. Colombia has modernized its industry and invested in fields located in the U.S. to diversify its markets. Mexico has had more opportunities. Pemex has already been privatized and can make the most of the free-trade agreement with the United States and Canada. This has allowed the country to attract investments to the Mexico-U.S. border region, including from the so-called *maquiladoras* which invest in the area taking advantage of lower salaries in Mexican pesos and being able to export finished products to the U.S.

Many oil companies are already preparing for a "green economy". The major oil companies in Europe have announced that they will become electric companies within twenty years. They will possibly sell natural gas but they will no longer be oil companies. The pandemic and the Paris Agreement targets for 2030 have also produced profound changes in countries' structures. Time is running out for oil companies and industrial firms to reconvert to stop emitting greenhouse gases and to adapt to the new digital world. Consequently, President Biden has also prohibited drilling in Alaskan oil and gas fields and in the U.S.'s area of influence in the Arctic, repealing the measures adopted by former President Trump.

New strategies are emerging in the industrialized countries of the West, especially from the signatories of the Paris Agreement, to reduce carbon dioxide emissions and all industrial processes that cause them. To achieve this, the production of "green hydrogen", which does not pollute and competes on costs, is growing fast. Is hydrogen going to be the future energy source for airplanes, cars and factories?

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