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SYNERGY

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# Life after negative oil prices

Negative oil price was not a surprise to some. The event itself is historical, but the missing analysis in the aftermath of this historic event is the developments may initiate. In this comment, a brief impact assessment of this historic event will be explored.

We know for sure that some regional oil prices have dropped below zero before 20th April. Therefore having a zero oil price is not the historic event by itself. What can be deemed historic has two parts. Firstly, a benchmark oil price has dropped below zero. The second one is the magnitude of the negative price was enormous.

The financial aspect is prominent. However, the role of manipulation, algorithms, and rules are not that obvious. It will take time to unfold the details. The causality of the event should be understood correctly. Sometimes investors jump into such funds as if a small opportunity window has opened for a limited time. In Turkey, for example, we are hearing rumors that people are betting that this can be the lowest oil price ever and taking long positions. One danger is the possibility of another negative price and margin calls. As CEO of CMEGroup states, in the futures market, they may be unlimited losses. Do not think that you are as clever as Mexico in oil hedging, as Pierre Andurand underlines, "it is a dangerous game now."

WTI as a benchmark has the effect of triggering multiple events in other oil prices. There are at least dozens of oil pricing regimes based on WTI. Until 20th April, no one thought that oil prices could be negative. But all WTI-based contracts and oil blends have the risk of seeing negative prices. All risk assessments have been changed.

The fear of negative prices has dried up liquidity in the futures market. A more liquid futures market was the guarantee of healthy price discovery. Now price discovery (not forecast) will be more costly and more shallow. This may create further volatility.

The other important discussion is about the "benchmark" discussion. There are several ways forward. The WTI benchmark may change assessment or may add further assessment procedures. The recently discussed one is about Houston delivery. The landlocked version of WTI is not the right tool for a massive producer like the US, maybe. It is for sure that Cushing is an excellent point for storage and pricing a WTI of US, but an international WTI needs updates.

There is also the bloodbath. Starting from small investors, there are losses spread across the world. Most retail investors look as if they were unaware of the physical delivery settlement. Interactive Brokers has posted USD 88 million provisional losses. Compared to open contracts, this may look like a big loss.

According to WSJ, oil-linked products caused Chinese investors to lose about USD1.3 billion. The promised "bao"(treasure) of crude oil products has left lots fo small investors with losses they may not have imagined.

For the CME Group, their negative pricing has also caused international concerns. Reuters has published a story about Bank of China's request from CME Group to investigate 'abnormal fluctuations. Shale oil producers are no different. Harold Hamm of Continental Resources has sent a letter to Commodity Futures Trading Commission (CFTC) to investigate "possible market manipulation, failed systems or computer programming failures" on the CME. Therefore China and some shale producers are at least on the same page when it comes to oil market dynamics.

The crises have the habit of slowly revealing their full impact. A negative price is a surprising event and a headline maker. However, it is just a trigger. Without creating more mystery, I would like to speculate on what may happen.

WTI as a benchmark is likely to evolve; the early signs have started from CME. WTI Houston Crude Oil Futures is a likely candidate. This will change a landlocked WTI to a waterborne one. The carnage of negative prices will pressure the CME Group on pricing rules. We expect more statements from CME to mitigate liquidity drain and fear of negative prices. The banking sector is probably shocked by the negative prices, and crude oil products will be impacted. The Mexican hedge will be more costly. Hedging itself turns a more risky business than fundamental market forces. But 20th April is only the start of such an event. Another wave of benchmark discussion may be waiting for us.

Barış Sanlı

# Forcing an Energy Transition?

The COVID-19 pandemic, coupled with the turmoil in the oil markets, has created an unbalanced reality in the energy markets. The problem of oversupply and lowered demand is causing many to question whether the dynamics of the sector are upright and healthy. Still, the producers, of course, have other more urgent problems to deal with. Oil has grown significantly in the last century to become a cornerstone and a building block of modern nations, at what cost is a different matter of question. Whether we like it or not, especially in the last decade, it has come to create alternative regional economies based on the activity it generates. Numerous countries with hundreds of millions in population numbers rely on the commodity to fund their budgets, thousands of small towns took their financial lifeline through this sector. Enormous investments have been made for establishing working supply chains from infrastructure to transportation and indirectly, with the sheer size of this industry. Any immediate shock in this sector will have far-flung effects that go far beyond the scopes of the pure fossil-fuel industry.

The public perception of what oil is in the U.S. and the E.U. differs from region to region. Still, one thing is certain, the transition to greener energy sources will dominate the headlines in the industry, but the method to how is greatly disputed. Should it be done with the global majors engaging in the transition, or should they be left out? How fast can the shift in the balance take place?

With the COVID-19 forcing a large number of people to work from their home, ideas have also started to emerge in greater numbers across the mainstream media outlets. With the economic contraction, the pandemic has forced, an economic recovery and stimulus package is sure to be provided by the governments in especially the developed nations in due time. Running in line with the transition to the green energy plan, some have advocated that now is the perfect time to boost the spending for developing renewable sources and creating the much-needed economic activity in the energy sector. The fact that the oil industry is cash-strapped at the moment and has fewer options to counter such moves makes this an ideal solution for some. But it should not be forgotten that purely boosting a single developing sector in the face of another long-developed one will have significant implications and create a strong repercussion.

Millions of people globally rely on the oil industry for their paychecks and incomes. Besides, being a specialized sector, the unemployed people from the industry will have quite a few numbers of options in terms of industries to transfer to. Can the policymakers justify the consequences of their actions to these people, who will become voters in the next elections?

In the long term, such a move will create a strong anti-renewables movement that will bring together newer and bigger obstacles in the policy-making processes to come over if we want to diversify the energy mix. Abrupt and boldly outlined policies should not be followed amid the current crises. Well-thought-out plans that bring together the interest of all stakeholders should be the course of action if we want to forge new pathways in the current era of changing dynamics. Instead of pursuing shock and awe tactics to paralyze the oil industry, it should be deeply analyzed as to what factors and components of the sector can be transferred over to the renewables initially. Proceeding on with providing the stimulus to encouraging this transmission will not only serve to preserve the current employment opportunities and long-sought and gained experience but also serve as a force multiplier in the development of the supply chains with due regards to the expertise these companies and industries have.

We already know that the offshore oil & gas industry share numerous components with the offshore wind sector, and considering the depth and the urgency of our current situation, finding other common points of convergence should not be too daunting of a task. Whatever the results and end-decisions may be, the policymakers need to act fast if energy is seen as one of the leading industries to kickstart the economy back into action. In their decisions, it will be important not to substitute one sector for the other, although the weighting may change. We may be headed into an era with a different mix of energy, but we also should not forget what we have at the moment to work with.

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|---|---|---|---|
| BRENT OIL | 25.82 $/BL | GASOLINE | 5.33 ₺/LT |
| USD/TRY | 7.03 | DIESEL | 4.86 ₺/LT |
| EUR/TRY | 7.70 | FUEL OIL | 2.12 ₺ |

# Is Oil a Curse or a Blessing?

Oil, as one the most essential and biggest industries in the world, has been a black gold for some people, but sometimes, it was just the devil's excrement. We can see oil abundance both in very well-governed democratic states like the U.S., Canada, and Norway and in relatively corrupted and undemocratic countries like Saudi Arabia, Iraq, and Nigeria. This difference stems mainly from not the oil itself, but from the regime, governmental institutions, and economy.

As Haber and Menaldo mention, the resource curse is related to a dynamic process that has emerged over time. There is evidence that natural source abundance generally results in the resource curse but under some conditions. One type of natural resources which is correlated with the level of democracy and weak governmental institutions, can cause this situation. It is the oil...

Generally, there are three approaches to the resource curse issue: the orthodox, heterodox, and dissenting views. The first one argues that there is a direct relationship between oil and some political, economic, and social problems like authoritarianism, slow growth, and civil conflict. As Ulfelder indicates, if the revenues from resources have a large share of national income, the transition towards a democratic regime becomes more difficult.

For example, oil-rich countries generally located in Latin America, Africa, and the Middle East have slow growth rates besides political regime problems. Moreover, their economic growth happened during only the 1970s.

On the other side, the heterodox view says that there is a conditional relationship, and this can lead to both autocracy and democracy. It a double-edged sword as Frankel calls. Ortega and de Gregorio claim that any impact of the oil abundance on growth is conditional because the level of human capital is also different in each country. So, the political and economic conditions in the states are the most effective factors to prevent or to face corruption, patronage, autocratic regimes, and weak governmental institutions. For example, when we look at Canada, it is seen that Canada has abundant oil reserves with 10.4%.

At the same time, when we look at the democracy index, we can see this country as sitting in 6th place. Based on these data, the political, economic, and social prosperity peculiar to Canada has enormous impacts on creating a balance between its incomes from the natural resources and political regime. So, from a Canadian perspective, the resource curse is not a "curse," but it is a "blessing." Finally, the dissenting view says that there is no systematic relationship.

Also, the resource curse is an exception rather than a rule. In this approach, a question comes into the mind. If the resource abundance is a curse, why the states don't refrain from exploiting these resources? Moreover, any increase in resource abundance is neither associated with authoritarianism nor with the civil wars. However, as the value of oil increases, the conflict risk might rise. For example, if the oil is found onshore, there will be significant effects in terms of security. If the location of discovery is close to the marginalized ethnic groups living area, there will be some asymmetric war activities as well as the concession demands from the government.

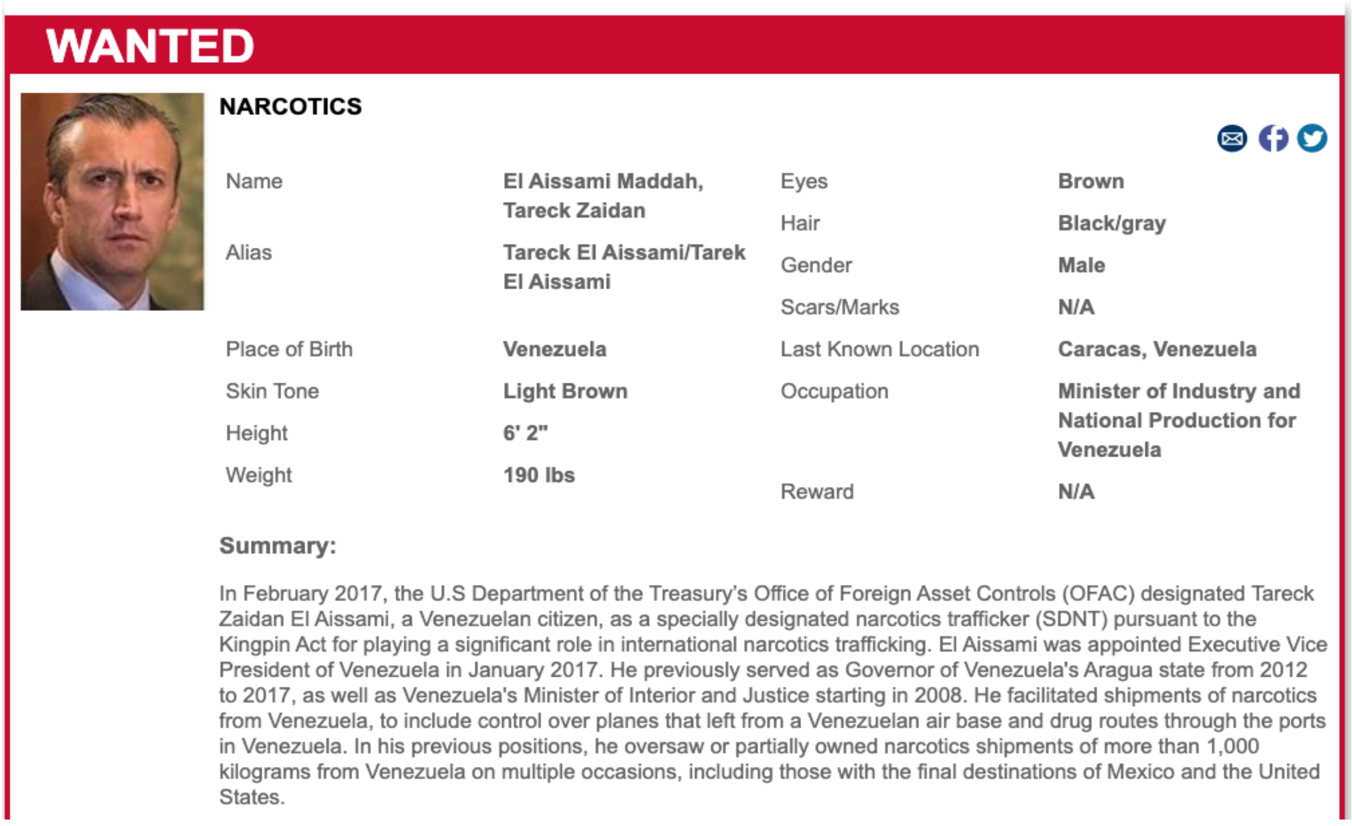
The oil and other natural resources might cause a necessary evil; however, it cannot be said that this directly promotes dictatorship, slow growth, or civil war over the long run. Under some conditions in some countries, oil can be either a curse or a blessing. Sagging oil prices are just one of the COVID-19 crisis effects awaiting African producer countries like Nigeria.

Despite essential steps in economic growth, their economies are not yet resilient enough to go beyond the resource curse. If the current decrease in commodity prices maintains beyond the COVID-19 crisis, resource-rich countries will need to change gears quickly in order not to be a subject of the curse. The best solution might be the diversification policies that are tailored to their specific market and institutional conditions. As a resource blessed country with vast amounts of oil and gas incomes, Russia also tried to develop its economy.

However, despite these efforts, Russia will probably be inflicted by a curse due to the decreasing oil prices, COVID-19, weak institutions, and the lack of diversification in the economy. Russia can handle with this resource curse situation at the dawn of the price war and COVID-19 by attracting foreign direct investments. At this step, Russian policymakers' approaches and normalization efforts with open and close diplomatic relations will be very useful in the resource curse or blessing dilemma.

Yazgı Nur Akın

# Venezuela's Most Wanted Oil Minister



**WANTED**

**NARCOTICS**

| | | | |
|---|---|---|---|
| Name | El Aissami Maddah, Tareck Zaidan | Eyes | Brown |
| Alias | Tareck El Aissami/Tarek El Aissami | Hair | Black/gray |
| | | Gender | Male |
| | | Scars/Marks | N/A |
| Place of Birth | Venezuela | Last Known Location | Caracas, Venezuela |
| Skin Tone | Light Brown | Occupation | Minister of Industry and National Production for Venezuela |
| Height | 6' 2" | | |
| Weight | 190 lbs | Reward | N/A |

**Summary:**

In February 2017, the U.S Department of the Treasury's Office of Foreign Asset Controls (OFAC) designated Tareck Zaidan El Aissami, a Venezuelan citizen, as a specially designated narcotics trafficker (SDNT) pursuant to the Kingpin Act for playing a significant role in international narcotics trafficking. El Aissami was appointed Executive Vice President of Venezuela in January 2017. He previously served as Governor of Venezuela's Aragua state from 2012 to 2017, as well as Venezuela's Minister of Interior and Justice starting in 2008. He facilitated shipments of narcotics from Venezuela, to include control over planes that left from a Venezuelan air base and drug routes through the ports in Venezuela. In his previous positions, he oversaw or partially owned narcotics shipments of more than 1,000 kilograms from Venezuela on multiple occasions, including those with the final destinations of Mexico and the United States.

With the collapse of the oil prices and COVID-19 pandemic, the oil sector in Venezuela also severely damaged. At the beginning of this year, Venezuelans were already under the U.S. sanctions. The inflation rate in the country rose to 53,798,500%, and society created alternative currencies to overcome economic burdens.

To solve these problems, the Venezuelan President Nicolas Maduro appointed Tareck El-Aissami as the new oil minister. Maduro also replaced the head of the state oil company PDVSA with Asdrubal Chavez, who is an oil expert and the cousin of former Venezuelan Presiden Hugo Chavez.

The interesting fact about the Tareck El-Aissami is that the United States government offers $10 million rewards for information leading to the arrest or conviction of him.

El-Aissami is accused of drug trafficking and providing Venezuelan passports for the Hezbollah army in Lebanon, which is assumed to be linked with Iran. However, he denied all of these accusations.

According to analysts from the Financial Times, this relationship enables the Venezuelan government to strengthened ties with Iranians.

Starting from the beginning of this year, the American government gradually increased the pressure on the Venezuelans by applying new sanctions. On February 18, 2020, The United States had imposed sanctions on Rosneft Trading SA to cease the support of the Venezuelan president Nicolas Maduro. The sanctioned company was a subsidiary of Russia's state-controlled oil company Rosneft, and it had a crucial role in trading Venezuelan oil. Russians managed to handle these sanctions by buying the Rosneft shares through government-owned firms.

The U.S. government also ordered fuel suppliers to stop sending petroleum products to Venezuela. The gasoline prices spiked to $2 per liter. Thousands of Venezuelans immigrated the nearby countries.

Later, the Iranian support on gasoline blendstock and technicians for the operations on Venezuela's Amuay refinery was protested by the U.S. government. The Americans also asked international support for denying the flights between Iran and Venezuela.

According to the Bloomberg report, the Venezuelans paid Iranian support with gold and planes from Mahan Air, which is an airline in Iran that helped these transactions to complete. Last week the Venezuelan government officials supplied 9 tons of gold, which is equal to $500 million to Tehran for their support to their oil industry.

The Iranians denied operation and claimed that it is another American policy to put international pressure on the Iranian regime and disrupt the Venezuela-Iran relations by harming the trade.

However, the decline of Venezuela's foreign reserve values signals that the money left the country.

Overall, when we sum up all the evidence we have, it is likely that Iran and Venezuela are trying to recover the damage given by the U.S. sanction through cooperation. When we think about the lack of knowledge that Tareck El-Aissami has on the oil sector, we can speculate that his presence in the ministry can be related to other activities that can repair the Venezuelan oil sector. The upcoming days will reveal to us the true motivations of these countries.

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