

# Sustainability Challenges in the Energy Sector

May 2020



## CHECK-IN QUESTION

In the past month, the business videoconferencing program I have used most often is:

1. Apple Facetime
2. Cisco Webex
3. Google Hangouts
4. GoToMeeting
5. Microsoft Teams
6. Skype
7. Zoom
8. Other
9. Co-video 19
10. What's videoconferencing?

# AGENDA

1. **Introduction: Jim Robertson**
2. **Energy market scenarios: Carole Nakhle**
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## WHAT COULD THE RECOVERY LOOK LIKE?

<b>V SHAPED</b> <i>BEST CASE SCENARIO</i>	<b>U SHAPED</b>	<b>W SHAPED</b>	<b>L SHAPED</b> <i>WORST CASE SCENARIO</i>
<ul style="list-style-type: none"><li>• A short, sharp decline in economic activity followed swiftly by a rebound in growth within 12 months.</li><li>• With productive capacity retained, sectors may need to support to make up for lost ground following a break in demand.</li></ul>	<ul style="list-style-type: none"><li>• A short, sharp decline in economic activity followed by a long trench in the bottom.</li><li>• Recovery period typically over a period of 12 to 24 months.</li><li>• Scarring effects - unemployment takes time to fall back.</li><li>• Breakdowns in skills-job matching.</li></ul>	<ul style="list-style-type: none"><li>• As V shaped but a 'second wave', resulting in part from further outbreak of disease.</li><li>• A double dip recession.</li></ul>	<ul style="list-style-type: none"><li>• A short, sharp decline in economic activity followed by a long period of stagnant growth.</li><li>• A 'lost decade' with persistently high unemployment rates. Severe hysteresis effects.</li><li>• A large state, with a big fiscal deficit, high levels of debt. Spending cuts/higher taxes required.</li></ul>

## POLLING QUESTION

For the world economy as a whole, by the end of 2021 I think we will have seen:

1. A V-shaped recovery
2. A U-shaped recovery
3. A W-shaped recovery
4. An L-shaped non-recovery

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## **Oil & Gas Industry: Economic and Fiscal Challenges**

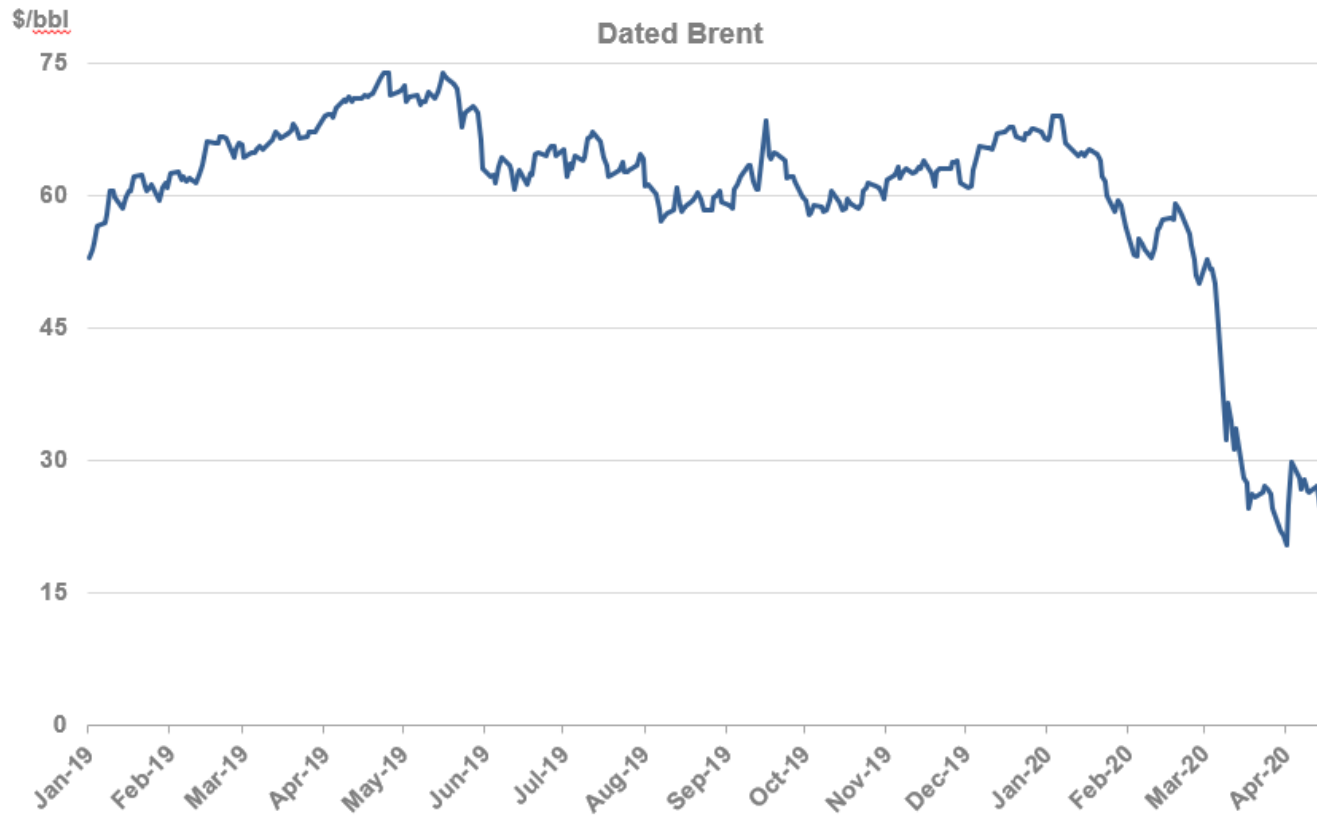
Dr. Carole Nakhle

CEO, Crystol Energy

Director, Access for Women in Energy



## 2020: Oil price collapse

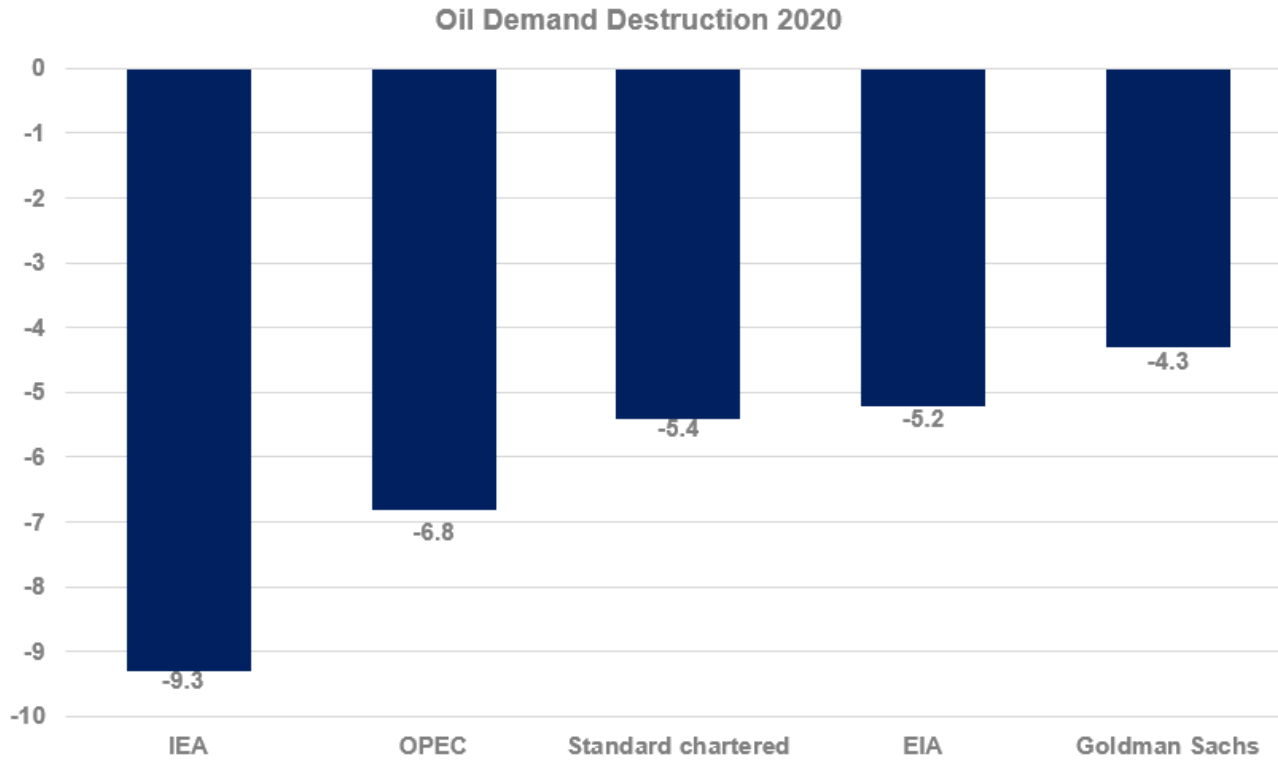




## Since 2014, oil markets have entered a new phase



# Race to the bottom



IEA, Standard Chartered, EIA, Goldman Sachs

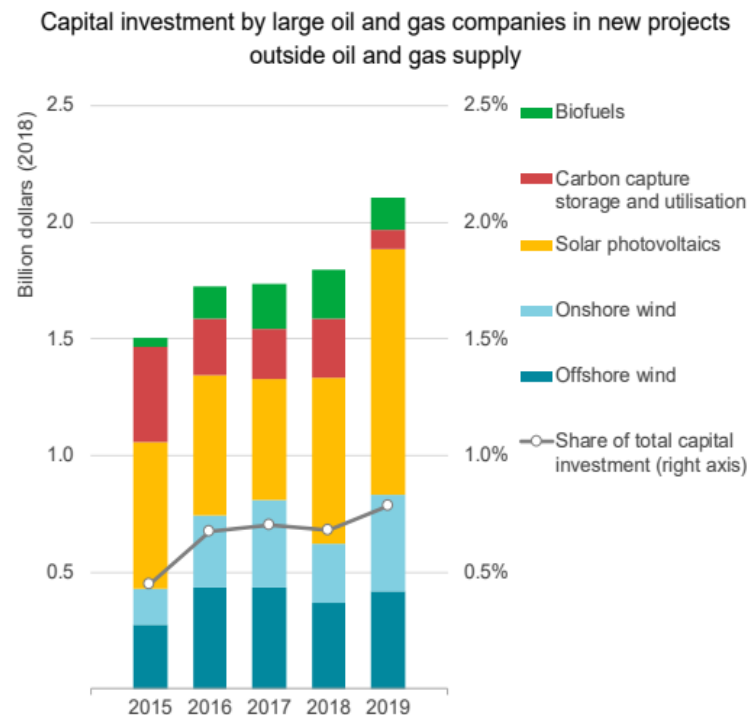
## Long list of factors that shape Gov-Industry relationship

- Oil price (most obvious)
- Investment trend
- Production life cycle
- Politics
- Regional effect
- Government finances
- Public interest
  - Energy transition



## 'Big Oil' and the energy transition

- IEA: since 2015, < 1% of total CAPEX by leading oil/gas companies made on projects outside core oil/gas, with the largest outlays in solar PV and wind
  - That amounts to just over \$2bn since 2015
- At this speed, by 2035, the total spending would be \$15bn
  - A far cry from \$350bn investment in wind and solar required for the oil majors to achieve the same market share they have in upstream oil and gas, at current costs (Woodmackenzie)



IEA 2020

## Pre-Covid19: rising income inequality

- Income inequality in many parts of the world (rich & poor) so strained that slight changes in taxes can trigger unforeseen reactions
- Energy constitutes a relatively large share of the expenditures of low-income households

Saving the Planet



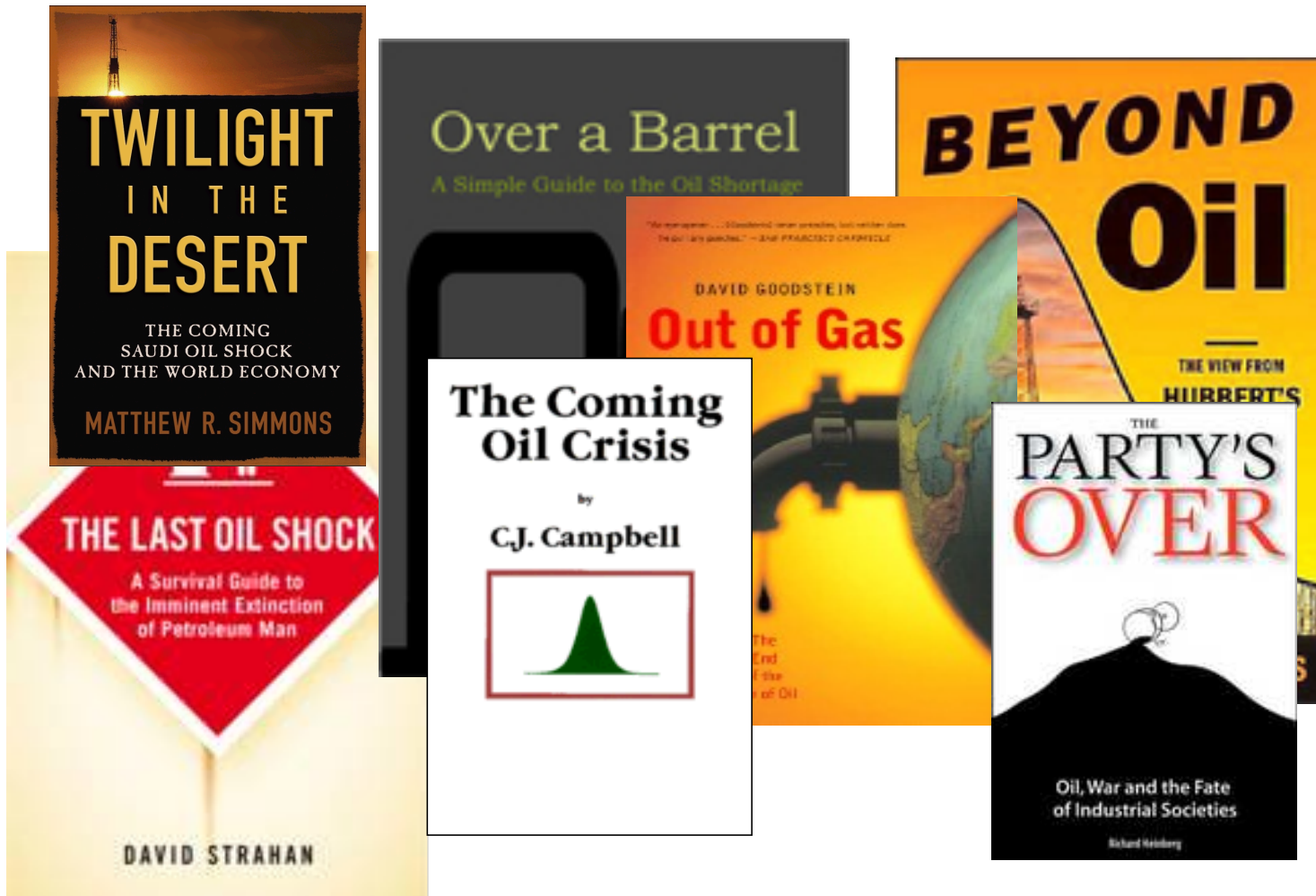
Vs.  
Saving the Pocket



## Fiscal cost unclear

- **Germany:**
  - The burden placed on households by the renewable energy surcharge would amount to **“only around one euro per month, the price of a scoop of ice cream”**, Former Green Environment Minister Jürgen Trittin, 2004
  - **“The costs of the Energiewende and of the transformation of our energy supply could add up to around one trillion euros by the end of the 2030s”**, Federal Minister for Economic Affairs and Energy, Peter Altmaier, 2013
- **UK:**
  - Fuel duties represent around 4% of government total tax receipts of GBP 690 bn (US\$893bn)
  - Whereas, a buyer of a Tesla vehicle will benefit from the ‘Plug-in Grant’, which is a purchase subsidy of up to £4,500 deducted from the purchase price, in addition to various taxes and charges exemptions
- **Norway:**
  - Tax revenues from petroleum activities more than US\$ 5.2bn yearly

From last decade's "Peak oil supply. The end of cheap oil"



# Thank you!

[carole.nakhle@crystolenergy.com](mailto:carole.nakhle@crystolenergy.com)

@carole\_nakhle

@CristolEnergy

@AccessWIE



## OIL MARKETS QUESTION

At the end of 2020, I personally think the Brent oil price will be:

1. Less than \$10
2. \$10-20
3. \$20-30
4. \$30-40
5. \$40-50
6. Over \$50

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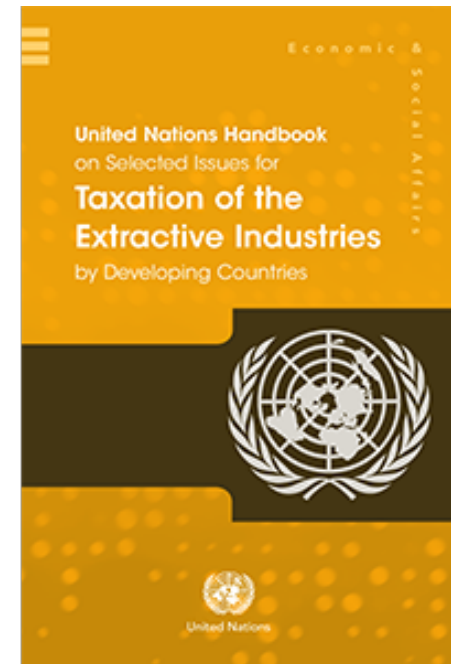
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# UN HANDBOOK

- Overview
- Tax Treaty Issues
- Permanent Establishment Issues
- Indirect Transfer of Assets
- Transfer Pricing Issues
- The Tax Treatment of Decommissioning
- The Government's Fiscal Take
- Tax Aspects of Negotiation and Renegotiation of Contracts
- Value Added Tax



*Handbook on Selected Issues for Taxation of the Extractive Industries by Developing Countries*

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# THE IMPORTANCE OF CORPORATE SOCIAL RESPONSIBILITY

## 1. Have a Good Answer to “How Did You Help During the Great Pandemic?”

- *Quantify what you did for your employees, customers, community & nation*
- *Identify stakeholders who will help tell your story in the months ahead*

## 2. Leverage the Opportunity to Build a Better Business

- *Become more disruption-resilient via cloud, mobile, telework tools & telehealth benefit*
- *Harden systems against hacking, ransomware, supply chain disruptions*

## 3. Have Credible Solutions to the New Major Challenge

- *What will grow employment, increase resilience or save money?*
- *Engage policymakers soon (while they're home and eager to get to work)*

## 4. Prepare to Engage Reformers on the Systemic Failures Exposed

- *What do 21<sup>st</sup> century safety nets need to look like, and how do we pay for them?*
- *How to enable inclusive growth that leverages & helps focus market forces?*

## 5. Think Globally, Act Locally

- *Diversify supply chain optionality while defending trade & global engagement*
- *Lead by example in supporting global institutions aimed at shared challenges*