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KFCRIS Report on the Regional and International Impacts of Coronavirus

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In this Final Issue

Overview Current Situation

As many countries start easing national lockdowns and curfews, it is becoming apparent that life will not return to a pre-pandemic normality. However, as the Massachusetts Institute of Technology (MIT) Technology Review points out, there is growing realization that although everyone wants life to return to normal quickly, what most people have probably not yet realized—but soon will—is that life is not going back to normal after a few weeks, or even a few months. Indeed, some things never will. Because to stop the spread of coronavirus people across the world will need to radically change almost everything they do: how they work, exercise, socialize, shop, manage their health, educate their children and take care of family members. Hence, it is not surprising that in the international media and amongst diverse societies there is increasing discussion of this 'new normal'.

The current extraordinary times, observes National Public Radio (NPR) in the USA, will eventually give way to this new normal. For instance, the newfound public vigilance against contagion from coronavirus may signal the end of handshakes, sitting close to other people in public places, and even shared breakfast buffets and salad bars. In other words, 'social distancing', a term that was not in common usage only a few

(Cont. to Page2)

Latest Coronavirus Statistics as of: 31 May 2020

SAUDI ARABIA

Saudi Arabia will ease coronavirus restrictions, resume some economic and commercial activities starting 28 to 30 May. The Minister of Health Tawfiq bin Fawzan al-Rabiah said this new phase of coronavirus strategy is based on two pillars: the health care system's capacity of accommodating critical cases and the policy of expanding testing and early detection. The second stage from 31 May to 20 June will allow movement between the hours of 6 a.m. and 8 p.m. in all areas of the Kingdom, except Makkah. The third stage from 21 June will see a return to "normalcy" in all areas of the Kingdom, excluding Makkah, and restore pre-curfew conditions whilst continuing to enforce social distancing.

Confirmed cases: **85261** | Deaths: **503** | Recovered: **62442**

Individual Countries

Up-to-date statistics on confirmed cases, deaths and recovered in specific countries can be found here:

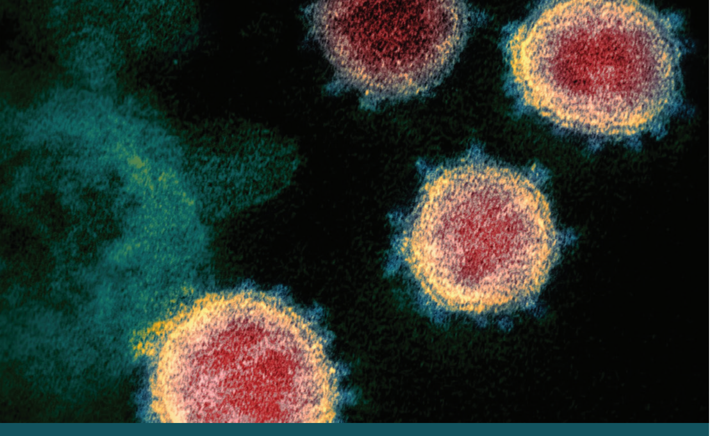
https://coronavirus.jhu.edu/map.html
www.worldometers.info/coronavirus/

short months ago, has already become a global societal 'norm'. Furthermore, there is widespread consensus that every country needs to 'flatten the curve' by imposing and maintaining social distancing to slow the spread of the virus so that the number of people sick at any one time does not cause national health-care systems to collapse. There is also recognition that effective and long-lasting social distancing could prevent the much feared 'second wave' of the virus. Yet as the MIT Technology Review stresses, coronavirus needs to be present in society, at a low level, until either enough people have had coronavirus to leave most immune (assuming immunity lasts for years, which nobody knows yet) or until a vaccine becomes available.

As workplaces gradually re-open after national lockdowns, governments and businesses are looking at new ways of working. For example, New Zealand's Prime Minister Jacinda Ardern has suggested introducing a four-day working week to help boost the economy and address work-life balancing. During a Facebook live video, Arden said she hears lots of people suggesting a four-day working week, but ultimately this is dependent on employers and employees. However, Arden emphasized that due to the pandemic, societies around the world have learnt that flexible home working can drive productivity. The BBC reported that a growing list of business leaders are adding their weight to working from home and more flexible working arrangements, aided by technology and video-conferencing platforms such as Zoom and Google Meet. Indeed, both working from home and shorter working weeks have been applauded by human resources experts as an alternative to a mass return to offices. Additionally, a shift towards more remote working also allows companies to rethink their expensive office space.

John Naughton, professor of Public Understanding of Technology at the Open University, UK, says that global pandemics press the fast-forward button on history. Suddenly, changes that would in pre-coronavirus times have generated years of debate, dissent, hesitation, opposition, and delay turn out to be possible overnight. All the disruption associated with coronavirus is causing people to challenge their basic assumptions about careers, the workplace, their use of technology, and many related issues. In other words, the 'new normal' is already happening, and extremely quickly.

What does the R number mean?



R refers to the 'effective reproduction number' and it is a way of measuring an infectious disease's capacity to spread. The R number signifies the average number of people that one infected person will pass the virus to. An R value of 1 is a crucial threshold. The R number is not fixed, but can be affected by a range of factors, including not just how infectious a disease is, but how it develops over time, how a population behaves, and any immunity already possessed due to infection or vaccination. Location is also important: a densely populated city is likely to have a higher R than a sparsely peopled rural area. The coronavirus has the R number and governments around the world are keen to see it shrink as much as possible. In fact, the R 1 threshold will become increasingly crucial over the next few months as an R number that is even slightly over 1 can lead quickly to many cases due to exponential growth. For example, an R of 1.5 may seem a manageable figure, but this is not the case. An R of 1.5 would see 100 people infect 150, who would in turn infect 225, who would infect 338. In three rounds of infection, the number of people with the virus would have more than quadrupled to 438. As worldwide cases now exceed 6 million, this helps explain why coronavirus was able to spread so quickly among a global population with no previous immunity.

Source: The World Economic Forum (WEF)

Commentary & Analysis

In this final KFCRIS weekly report on the regional and international impacts of coronavirus (COVID-19) comes at a critical time as the virus continues to impact on national economies and the lifestyles of millions of people. Hence, this weekly report aims to interview a diverse range of individuals including policy makers, academics, and thinkers to seek their opinions on the impact of this pandemic as it relates to their area of interest. In this KFCRIS weekly report on the regional and international impacts of coronavirus (COVID-19), Fahad Alsharif, Senior Research Fellow at KFCRIS, Saudi Arabia, discusses the link between coronavirus and undocumented migrants in Saudi Arabia. Cinzia Bianco, Visiting Fellow, European Council on Foreign Relations, Germany, considers how Europeans can support the Gulf Cooperation Council's (GCC) rehab from fossil fuels addiction, and Yousef M. Alshammari, CEO of CMarkits, UK, considers what is next for the oil markets as economies to start to reopen.

The link between coronavirus and undocumented migrants in Saudi Arabia

Fahad Alsharif

As a result of its extended history in receiving millions of pilgrims over a great many decades, Saudi Arabia has developed significant experience in handling outbreaks of diseases that occurred during or after the *hajj* and *umrah* seasons. The last major outbreak was the Middle East Respiratory Syndrome (MERS) coronavirus, first reported in Saudi Arabia in 2012. In all such cases, the government was quick to respond, being able to rely on its extensive experience and resources. However, the 2020 coronavirus pandemic has been different. Coronavirus has proved highly problematic for even powerful and developed states such as America and Britain. Additionally, an effective vaccine appears to be a distant reality.

Under these conditions, Saudi Arabia has shifted its priorities from security to human concerns, in particular healthcare provisions for the undocumented through an amnesty initiative. Drawing from ethnographic data collected in 2009 and more recently in 2020 following the outbreak of COVID-19 within communities of undocumented migrants in Jeddah, the most recent government amnesty, which allows undocumented migrants access to health care without penalties of deportation is insufficient in addressing migrant healthcare issues vis-à-vis coronavirus. Crucially, the new amnesty fails to address critical issues including the lack of trust, fear of deportation and other structural problems.

Fahad Alsharif
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The impact of coronavirus on Saudi Arabia's immigration policies: Amnesty

Following the coronavirus outbreak, Saudi Arabia decided to make available its domestic health care services to undocumented migrants, to prevent public health threats to both national and expatriate populations. While this governmental humanitarian response is a crucial component in mitigating the spread of coronavirus, historical data points to critical limitations in the potential effectiveness of such an amnesty option. The preventative measures taken by the Saudi government, which included isolation and the restriction of the movement of the entire population, has made it difficult for the undocumented to have access to any kind of necessary medical care. It is highly probable that many of them have already been infected. This constitutes a permanent, uncontrollable threat to the health of all Saudi citizens and residents. Recent government regulations appear to have been successful, although infections could escalate—quickly and dramatically—because of the lack of access to medical providers for undocumented migrants. Hence, it is essential to extend these preventative measures to the most vulnerable sectors of Saudi society to minimize the public health risk for all.

Outcomes and recommendations

This is a typical answer from a Nigerian about coronavirus and the undocumented communities in Jeddah. It provides a 'snapshot' that represents the majority viewpoint of the interviewees:

> In the southern districts of Jeddah, large communities from Yemen, Chad, Somalia, Nigeria, and a minority from Sudan reside. A significant percentage of them are illiterate; the curfew does not constrain them; inside these districts, they continue with their everyday trading lives. This carelessness is dangerous under the present circumstances. The awareness of these communities about the recent government decree that allows the undocumented access to health care linked to the known number of infected people is unclear. It is complicated to determine the exact number for many reasons; one of them is trust. People are scared when it comes to seeking help for coronavirus symptoms, and risk jail and/or deportation. These attitudes are coloured by past experiences with the authorities.

Data from different communities also points to the same conclusion. Namely, not everyone is fully aware of the new access to health care facilities or the absence of punitive government reprisals. Yet, this situation could prove dangerous in the current coronavirus emergency. In these circumstances, it might be better to advocate a drastic, urgent change to the existing amnesty provisions. This would guarantee a maximum degree of prevention as well as control the R number before any increase in infections hamper the state response to the virus. More importantly, historically the 'trust' factor between the authorities and the undocumented migrant population has been low. However, this is critical to the current (or future) implementation of any Saudi amnesty policy since non-cooperation with the undocumented will only exacerbate the negative impact of coronavirus on the Saudi state and society.

Whilst the issue of this healthcare amnesty is a step in the right direction for the Saudi government, the following recommendations would minimize the spread of coronavirus:

1. Increase trust between these undocumented communities and the authorities by launching a campaign that communicates the importance of following health regulations as outlined by the government during the pandemic.
2. Guarantee that undocumented individuals will not face punishment when approaching the health authorities through a system that allows undocumented migrants to call emergency services without the threat of rejection or retribution.
3. Develop more robust and long-term cooperation with foreign embassies to facilitate undocumented migrant identification and presence in the Kingdom.
4. Use alternative approaches, including the behavioral economic tactic of nudging, to increase trust and awareness between the authorities and undocumented communities. This will improve the likelihood of amnesty usage, compared to traditional methods that are associated with fines or jail sentences.
5. Facilitate welfare shelters.

To fully engage and govern undocumented migrant communities, it is imperative that the Saudi authorities build community trust with all stakeholders. This will assist in promoting the benefits of an amnesty policy that in turn, will protect the health and welfare of all migrant workers. Whilst issuing amnesty constitutes a vital part of the solution, building long-term confidence and communication with migrant communities is essential to achieve effective and long-term national migration governance.

Europeans can support the GCC's rehab from fossil fuels addiction

Cinzia Bianco

The coronavirus pandemic will have a monumental impact on the world economy. In the GCC, these dynamics are arguably already at play. The lockdowns imposed to contain the pandemic worldwide, together with the coming economic recession, have plunged demand for energy to historic lows. China, where the virus first originated, has seen its economy choked relentlessly by the pandemic since the end of 2019, with its 2020 Gross Domestic Product (GDP) forecasted to sink to a 44-year low—an optimistic estimate. As the second largest consumer of oil globally, the Chinese economic disaster triggered an oil price war that, fed by the progressive decline in other economies worldwide, pushed the price to its lowest levels in decades. Whilst the GCC states, whose economies have an overdependence on energy revenues, rush to push forward fiscal and economic measures to contain the formidable impact of this crisis, the vulnerability and volatility of the fossil fuel industry is once again under the spotlight.

It was precisely in lieu of this volatility and vulnerability that GCC states published their 'Visions'; the political economic strategies aimed at diversifying GCC economies and maintaining prosperity, by promoting the development of sectors of the economy that are not, or less dependent, on energy. Whilst the strains on liquidity may limit the full implementation of these Visions, the ongoing crises make it crystal clear that diversification is becoming more urgent. The challenges of operationalising such grand transitions, touching several domains, and in difficult times, encourage the notion of drawing upon the support of international partners for success. European countries, individually or collectively through the European Union (EU) have strategic advantages, such as long-standing ties and a consistent presence in the region along with the most diversified economic systems globally, that could be exploited to emerge as the GCC's crucial, long-term partners in their socioeconomic transformation.

Relations between Europe and the GCC remain characterised by unexploited potential, hampered by a mismatch of expectations on both sides that involve normative issues as much as geopolitical considerations. However, decades-long engagement has been consolidated through the establishment of durable ties and meaningful cooperation. This has occurred frequently in the sectors that are most strategic for the Visions, trade and logistics, entrepreneurship and human resources, tourism, entertainment and creative industries as well as innovation in energy.

Cinzia Bianco
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The EU, where small and medium enterprises (SMEs) largely constitute the backbone of the economy, has developed several frameworks, such as the Entrepreneurship Competence Framework (ECF), which focusses on enhancing employability amongst graduates and fostering an entrepreneurial culture. This could be particularly useful for Saudi Arabia and Oman, as both states are encouraging young nationals to seek employment in the private sector. Europe is also increasingly alert to climate change and has committed large resources to a European Green Deal, despite the challenges posed by coping with the coronavirus pandemic. A crucial aspect of the deal is promoting renewable energy, as already in 2017, some 13.6% of the total energy produced in the EU-28 came from renewables. European countries are home to pioneering technology in the field, as well as energy efficiency strategies, that could substantially help the GCC countries meet local energy needs amid the accelerated depletion of its hydrocarbon reserves. Instances of cooperation include the Spanish company Grupo-TSK, which played a key role in the construction of the Mohammed bin Rashid Al-Maktoum Solar Park complex in the UAE. This is expected to generate some 5,000 megawatts annually by 2030, and significantly, could provide a blueprint for the future. GCC states are also increasing efforts to promote their countries as tourist destinations, whether religious, entertainment or around international events related to sport and culture. Saudi Arabia in particular, has given these a great deal of attention in its Vision 2030, by easing visa regulations as well as promoting leisure and national heritage. For instance, the restoration of the archaeological Nabatean site of Mada'in Saleh, developed in cooperation with France. Oman also considers tourism a promising sector for its strained economy. Yet clearly the travel and tourism industries have been impacted severely by the coronavirus pandemic. This is true for both the GCC and the EU. However, these critical challenges could strengthen rather than weaken the case for international cooperation when considering ways to cope and adapt to new realities. Geographic proximity between the two regions, the existing high volumes of trade and the frequent intersection of commercial routes, could also encourage stronger engagement in the increasingly strategic domain of logistics. Finally, as one of the few sectors boosted by coronavirus, the tech industry also has great potential. European countries have developed attractive environments to support tech start-ups, and European capitals such as London and Amsterdam have emerged as global hubs for financial technology (fintech). This is of great interest to GCC states such as Bahrain and the UAE.

In conclusion, whilst at times misplaced expectations and political divergences have hindered targeted cooperation between the EU and the GCC in areas of mutual interest, this partnership has significant potential for the crucial issue of lessening oil dependency via economic diversification. There are different ways to face a systemic crisis such as the global coronavirus pandemic. Nonetheless, the wisest remains to attempt to turn the challenges into opportunities, especially the opportunity to accelerate positive change and turn the page on a risky and obsolete addiction to fossil fuels.

As economies to start to reopen, what is next for the oil markets?

Yousef M. Alshammari

2020 has been a year of historical economic events that have had a major impact on oil markets. In February 2020, prices started to decline as coronavirus started to spread in China, Europe and the United States. In light of the outbreak of the coronavirus, OPEC officially recommended 1.50 million barrels per day (mbbl/d) supply cut split over OPEC (1mbbl/d) and non-OPEC (0.50mbbl/d) throughout 2020. Russia the most important non-OPEC member of the OPEC+ alliance, expressed conservative views on the cuts right from early discussion in February. For Russia, the breakeven price for its national budget is $42 barrels per day (bbl), which declined significantly since 2014. Furthermore, the Russians were uncertain about the rise in prices when reducing production, given the uncertainty over the impact of coronavirus on the global economy. At that time, three factors led to the Russian decision of no further cuts (i) uncertainty of effectively increasing the oil price in case of reducing production, (ii) expecting that the price would not dive further in case of maintaining current production, below $45/bbl, which is high risk, and (iii) Russian companies are unwilling to give their market share to US shale oil producers.

After one month of hiking production, which led to a major price decline <$30, the OPEC+ group, consisting of 24 member countries, agreed to a historic total production of 9.70 mbbl/d, the largest single cut in the history of the organization. The distribution of the cuts will include 2.55 mbbl/d from Saudi Arabia and an equal contribution from Russia at 2.55 mbbl/d, accounting for 22% cut from 11.3 mbbl/d production baseline. The United States has committed to an organic cut of 5 mbbl/d throughout 2020, announced through the Texas Railway Commission, the government body in Texas which has authority to curb the states oil production.

The cuts agreement will be valid for renewal up to April 2022. President Trump, who mediated the historic deal, conducted a conference call with King Salman and President Putin during the OPEC+ conference where the leaders discussed the oil deal. According to the OPEC press communique, the OPEC+ overall crude oil production will be reduced by 9.70 mbbl/d, starting on May 1st 2020 until 30th June 2020. After that, the total production adjustment will ease to be 7.70 mbbl/d throughout the H2 2020. The total production will then be increased by another 2 mbbl/d to be 5.8 mbbl/d for a period of 16 months, from 1st January 2021 to 30th April 2022. The baseline for the calculation of the production cuts is the individual production of each country in October 2018, except for the Saudi Arabia and Russia, both of which will have a baseline of 11.0 mbbl/d.

Yousef M. Alshammari
CEO of CMarkits, UK.

The agreement will be valid until 30th April 2022, but its extension will be subject to revision in December 2021. In April, Saudi Arabia pumped 12.30 mbbl/d, which is higher than its agreed reference level of 11 mbbl/d under the new pact, which means that the effective cut by Saudi Arabia is about 3.80 mbbl/d. Actual oil production reductions from both Kuwait and the UAE will be also more than what was settled under the agreement. In fact, on top of the 9.70 mbbl/d cut from OPEC+, Saudi Arabia, Kuwait and UAE will commit to additional voluntary cuts of 2 mbbl/d cut as overcompliance. Furthermore, the contributions of the G20 through the US, Canada, and Brazil will amount to 3.70 mbbl/d as price-driven production declines. The current prices are unsustainable for US shale producers with several of them expected to go out of business if the low prices continue. This will provide an opportunity for a degree of consolidation in the industry with some cash-rich organizations well positioned to absorb the distressed assets.

Negative prices

Another impact of the coronavirus pandemic on oil markets has been the historical decline in West Texas Intermediate (WTI) prices to the negative scale in April 2020 when prices closed at around $-37. The sharp decline in WTI prices was mostly attributed to the excessive US inventory builds along with refiners throttling back refinery utilization due to slumping fuel demand because of the lockdown measures associated with the pandemic. WTI traders rushed into selling May contracts that were on the verge of expiry for two reasons. Firstly, the delivery of crude oil in May had barely limited storage which led to storage costs rising massively compared to the price of oil. For this reason, it was impractical for traders to take hold of any delivered crude making it more economical to pay for others to take hold of these contracts. Secondly, shale producers have been unwilling to shut down their wells not only for cost reasons, but also to retain lease of their production sites.

Oil prices continued their rally over the past week supported by rising fuel demand due to easing lockdown measures in Europe, America, and China. Chinese industrial output increased 3.9% *y/y* in April after plunging by 13.5% in the first two months of the year. Chinese oil demand is also said to be almost back to levels last seen before Beijing imposed a national lockdown to fight the coronavirus outbreak.

Current bullish and bearish factors

OPEC+ cuts, plus voluntary GCC extra cuts, have a key role to play in supporting prices but the observed price was mainly driven by rise of demand, strengthening economic activities in the eurozone and China, falling inventories and US dollar index, which is expected to continue to support price recovery. The falling dollar index was mainly driven by the rising Euro as European countries continue to ease lockdown measures and restore economic activity, and this was observed beginning of last week as prices maintained their rise. With current price levels, it is expected that US field shut-ins are currently at their peak and many of them may come back at the end of the year as prices continue to rise above $50.

Adding to the bullish sentiment, the US oil inventories continued to decline as reported by the Energy Information Administration (EIA) which showed that oil inventories went down by 4.98 million barrels (*w/w*) to a level of 526.5 million barrels, while oil production had fallen to 11.5 million, down by 0.1 mbbl/d *w/w* and down by 0.7 mbbl/d *y/y*. However, this bullish trend was offset by rising gasoline and middle distillates inventories which rose by 2.83 million barrels and 3.83 million barrels, respectively, over the past week. Furthermore, the US SPRs have increased by 1.9 million barrels *w/w*, and they now stand at 641.61 million barrels, including 255.6 million barrels of sweet crude and 386.1 million barrels of sour crude.

Over the next weeks, I expect prices to continue their recovery and be influenced by continued ease of lockdown measures. Yet trade tension between the US and China, and a spike of coronavirus cases in Latin America including Brazil, and uncertainty of finding a vaccine may lead to a persistent volatility in the markets in the weeks ahead. Demand from the aviation sector continues to be at record low, with current number of flights around 39k flights per day 61% less than its level before the coronavirus crisis, estimated at 99.7k flights per day, which suggests that kerosene demand is still at a significantly low level.

Price outlook

A price rally is expected to continue in 2020 with more expected decline in inventories in the US this week. However, many investments banks are bearish about their price outlook in 2020, while other see a price of $100 in two years due to falling investments and pausing shale oil supplies. At CMarkits, we see price recovery may be constrained by three factors that did not exist prior to the coronavirus crisis, (i) ease of OPEC+ cuts in July, inventories build up (ii) fears of second wave of coronavirus (iii) US China tensions (iv) halting aviation and (v) change in consumer behavior. We forecast Brent averaging at $45 in Q3 and $55 in Q4 2020, while WTI is forecast to average at $40 in Q3 and $450 in Q4 2020. In 2021, Brent is forecast to average at $60 while WTI is forecast average at $55.