THE WAR IN UKRAINE: SIX PRIORITIES FOR OIL AND GAS | ACCENTURE

VIDEO TRANSCRIPT

Hello. I'm Muqsit Ashraf, and I lead Accenture's energy business.

I'd like to talk about Accenture's view on how the war in Ukraine might affect oil and gas companies as well as broader European industries and economies.

Russia's invasion of Ukraine has had devastating human and economic impacts across the world.

The ripple effects are now impacting energy markets.

Even before the invasion, global oil demand was exceeding supply. Gas inventories in Europe were already at 10-year lows. The war has made a tough situation even worse—especially in Europe.

This is because Russia provides nearly a sixth of the global oil and gas supply, fulfilling about a third of Europe's needs alone. In fact, some European countries are 100% dependent on Russian gas.

To further complicate things, more than a third of Russian gas exports to Europe are piped through Ukraine. The potential for supply disruption is very likely.

So, what will the war ultimately mean for energy companies? Or industries that heavily rely on energy? Or economies, particularly in Europe?

The answer, of course, is, "We just don't know yet." It depends on:

- The length of the war
- The scope of sanctions imposed
- The level of disruption to Russian energy supplies … and many other factors.

While we can't predict the future, we can picture how a few scenarios might play out.

The first scenario is where we are currently where we have moved into the third month of the invasion. A quarter of Russian energy has been disrupted largely due to self-sanctioning by European buyers or government-enforced sanctions in North America. There has been some redirection of Russian supplies, but it's been limited so far and at heavy discounts. However, enough volume has been removed from the market to push up prices to at least $100 for oil and up to $50 per MMbtu for gas.

There are chances of further increases in the near term. The sectors feeling the greatest effects are power chemicals and heavy industries.

The second scenario assumes the curtailment of Russian gas to 50% while European governments work toward phasing out Russian oil by the end of the year. If this happens, oil prices could climb above $150 per barrel. Gas prices could climb above $50 per MMBtu. Rationing in Europe would be a possibility—especially in countries without LNG [liquefied natural gas] infrastructures. This would affect mostly industries in countries with heavy Russian gas dependence. Non-critical infrastructure supply might also be affected
The third scenario is more extreme. It would be a complete shutdown of Russian gas and oil to Europe. This would have a significant economic impact across Europe, including rationing, which could affect end consumers in many countries.

In any case, oil and gas companies probably won't see much impact in the near term. That's because high prices will likely offset losses due to a drop in demand.

However, that doesn't mean you shouldn't act. The war has amplified the need for a strong, reliable and diverse energy system that can withstand unexpected supply and demand shocks.

We believe they should use this time to continue, if not quicken their transformation. Think about these key areas:

First, take steps to support your people, especially those directly affected by the conflict.

Second, address near-term supply shortfalls by improving production from brownfield sites.

You can also work to make the energy system more reliable, secure and available as a whole. Diversifying is a good place to start, along with fast-tracking investments in LNG infrastructure and low-carbon sources.

Next, prepare for volatility by beefing up your capabilities in areas like trading and risk management…

… And help protect the energy system by strengthening your cyber defenses.
Finally, aim to work more closely with your customers to lessen the impact of energy prices and scarcity.

We don't know for sure how the war in Ukraine will evolve. But we do know the industry has an opportunity—and an obligation—to help soften its effects.

The actions you take today will not only bolster European energy security, but they'll also set the stage for a more resilient global energy system in the future.

Sources: Accenture analysis on data from Factiva.com. Oil/TTF: price forecast based on Accenture analysis as detailed out in the following price forecast chart. %-Curtailment: Umlaut/EWI analysis for Accenture as detailed out in the section Country-level Economic Impact.

Gas use reduction: Market-based reduction: e.g.; companies in Germany, including makers of steel and chemicals, have been forced to curtail production, as reported in “Putin tells Europe: Pay in roubles or we'll cut off your gas”, 31 Mar 2022; and e.g.; carmakers and refineries are dependent on either gas or chemical products produced with gas as reported in “Factbox: What happens if Russia turns off gas to Germany?”, 1 Apr 2022, Reuters, Factiva.com. Rationing in non-LNG geographies: “Germany girds for gas rationing, Europe on edge in Russian standoff”, Reuters, 30 Mar 2022, Factiva.com. Impacted: Chemicals/other heavy manufacturing forced to curtail production already today as mentioned in previous note; while shut-down of chemical plants would result in a huge domino effect across almost all industries, as reported in “German chemical industry fears shutdown for months without gas”, Reuters, 30 Mar 2022, Factiva.com. Shutdowns: Germany’s chemical industry association VCI has warned that if gas is rationed, production facilities would have to shut down, as reported in “German chemical industry warns of shutdowns for months without gas”, 30 Mar 2022, Factiva.com. EU B2C: if gas supplies stopped now and storage facilities could not be filled by the end of summer, Germany might have to ration gas for heating, as reported in “Factbox: Can Germany keep warm without Russian gas?”, Reuters, 8 Mar 2022, Factiva.com. Rest of the world (RoW): Some LNG Shortages: “European attempts to replace Russian gas by LNG risk sparking gas crisis in Asia”, Reuters, Feb 16, 2022, Factiva.com. Oil prices weigh on import heavy geos: “World Bank official says war-driven oil price hikes to slash growth for big importers”, Reuters, 9 Mar 2022, Factiva.com. Debt defaults from high energy prices supported by “Are we ready for the coming spate of debt crises?”, World Bank, 28 Mar 2022, “New mechanisms needed for debt stress as poor countries hit by surging prices -IMF”, Reuters, 11 Apr 2022, Factiva.com; and “Russia, China woes risk worst EM corporate default wave since financial crash – JP Morgan”, Reuters, 4 Apr 2022, Factiva.com. Rolling blackouts: sustained high coal/gas prices would support continued blackouts e.g., in Asia as reported in “Energy crisis could threaten global economic recovery, says IEA”, Reuters, 14 Oct 2021, Factiva.com

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