

COVID-19 Negative Oil Prices and Force Majeure

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The negative pricing for West Texas Intermediate oil (“WTI”) on Monday has raised alarm bells for many of our clients in the exploration and production and midstream industries. This article will clarify the issues for these companies and explain the forces at work that have created this situation.

The root cause of the current dilemma arises from the dramatic drop in demand starting with the onset of the COVID-19 virus on the United States. The drop in demand immediately started working its way upstream through refiners, transportation companies and ultimately to the producers. Producers cannot shut-in wells as quickly as the demand dropped, so there is an abundance of oil that must go into storage. But what happens if storage fills?

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