



POTEN TANKER OPINION



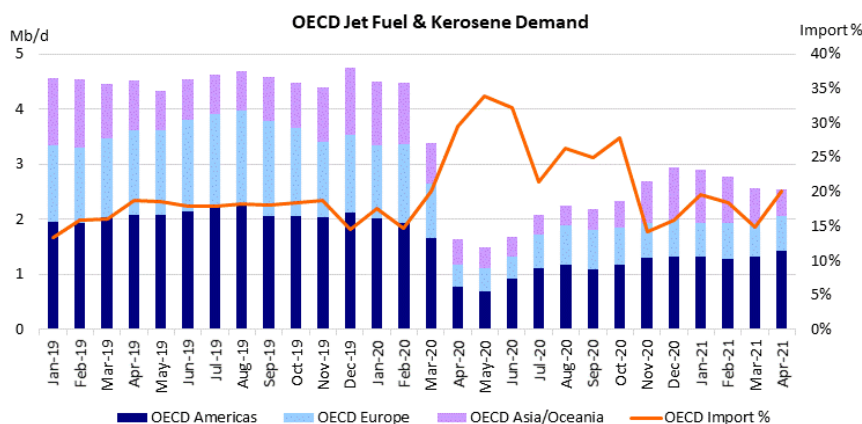
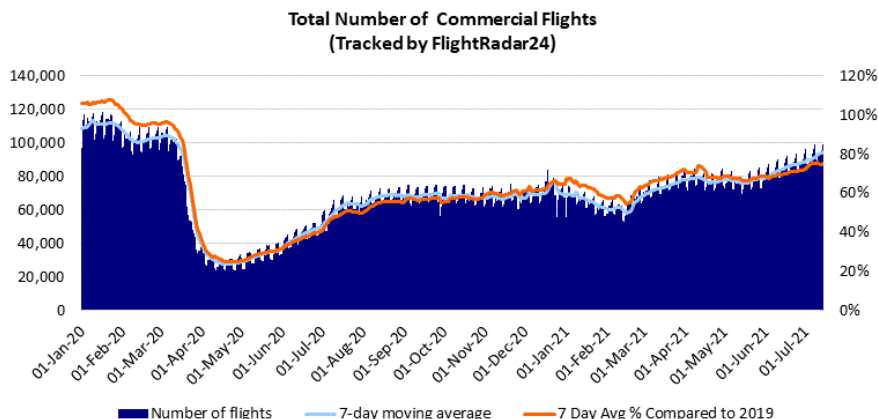
Grounded?

Jet fuel demand remains well below pre-pandemic levels

Jet fuel is the oil product that has been hit the hardest by the global pandemic. As the Covid-19 virus spread globally in early 2020, widespread lockdowns shut down national and international air travel. In their latest Medium Term Oil Market Report, the IEA expects that “jet fuel consumption will only return to 2019 levels by 2024 as travel restrictions, changing travel habits, and the relatively slow progress of vaccinations in low-income economies cap its recovery.” The IEA goes on to say that “the proliferation of online meetings and conferences, along with cost cuttings by companies, are likely to permanently dent business travel.” Average jet fuel consumption was 7.9 Mb/d in 2019, representing about 8% of global oil demand. In 2020, consumption fell more than 40% to average 4.7 Mb/d. Its share of global oil demand fell to a little over 5%. While demand is expected to grow 17% to 5.5 Mb/d in 2021, it remains well below pre-pandemic levels. Jet fuel is a widely traded commodity and the precipitous fall in demand has had an impact on product tanker demand.

There are big discrepancies in how jet fuel demand developed between OECD versus Non-OECD countries as well as between different regions in the world. China, for example, one of largest and fastest growing markets for jet fuel in the world has fully recovered from the decline in demand during the pandemic. In 2019, China’s jet fuel demand stood at 831 Kb/d. This fell to 712 Kb/d in 2020 (-14%), but the IEA expects 2021 demand to increase to 894 Kb/d, an increase of 25.6% and above the pre-pandemic levels of 2019. A robust increase in domestic air travel is the driver behind the increase in jet fuel demand; international flights are still down. India’s jet fuel demand, on the other hand, is expected to remain in the doldrums. Demand went down by 45%, from 235 Kb/d in 2019 to 130 Kb/d in 2020 and is expected to show only a relatively small (in terms of volume) recovery to 154 Kb/d in 2021. More robust growth is expected in 2022.

The situation in OECD countries is quite different, especially in North America and Europe. In the U.S., air travel is recovering relatively fast, although U.S. flight departures in June remained 18% below 2019 levels (domestic flights: -13%, international flights: -45%). Jet fuel demand in the U.S. was 440 Kb/d in June, 24% below the same month in 2019. The outlook for the summer appears promising with pent-up travel demand supported by a reopened economy, large accumulated savings and fiscal stimulus. The situation in OECD Europe is broadly similar, although several countries have reintroduced restrictions due to rising infections. We have to monitor the situation to see if this will reduce European jet fuel demand again in the coming months. Many of the OECD countries in



Asia (Japan, South Korea and Australia) are experiencing more Covid-19 infections and jet fuel demand is declining. Asian countries lag Europe and the U.S. in vaccination rates and are forced to continue strict lockdowns. Japan has declared a state of emergency in Tokyo ahead of the Olympics, which will be held without spectators. The recovery in jet fuel demand in OECD Asia will therefore likely lag other OECD regions and China.

The implications for shipping are fairly straightforward. Less demand typically means less movement. Within the OECD countries, approximately 20% of jet fuel is imported. OECD Americas sources most of its imported jet fuel from OECD Asia (mostly South Korea). Total imports declined from 175 Kb/d in 2019 to 158 Kb/d in 2020 and 108 Kb/d in Q1 2021. The Middle East is by far the largest supplier to OECD Europe. Jet fuel imports into Europe declined from 523 Kb/d in 2019 to 337 Kb/d in 2020 and 278 Kb/d in Q1 2021.

As can be seen in Figure 2 above, jet fuel demand has partially recovered, but it remains well below pre-pandemic levels as many countries are still struggling to contain the virus. Long-haul jet fuel exports from Asia to the U.S. and from the Middle East to Europe have clearly suffered. More vaccinations globally are required for international travel to recover. Even then, jet fuel demand may not return to pre-pandemic levels as global lockdowns demonstrated that online video calls can be quite effective and a much cheaper alternative to travel.