



POTEN TANKER OPINION



A Brave New World?

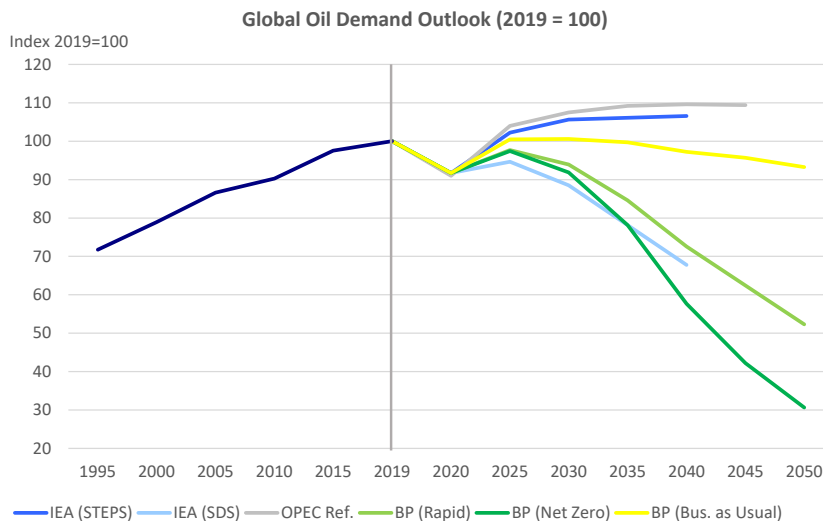
Trends in long term oil demand can have a profound impact on the tanker market.

In October, three oil analysts published their long-term outlook for the energy industry. The IEA released their annual 'World Energy Outlook', OPEC issued their annual 'World Oil Outlook 2045' and BP announced their new strategy during their investor event, which was accompanied by their 'Energy Outlook 2020 Edition'. All these outlooks cover several alternative energy scenarios for the coming 20-30 years. While such outlooks are not really relevant for the day to day charter market, newbuilding tonnage ordered today will eventually operate in the markets described in these documents. While we don't have room to discuss the various worldviews in detail, today we will give a brief comparison of their main points and their potential impact on the tanker industry.

While BP created their scenarios to support their strategic thinking, the IEA and OPEC provide their forecast or scenarios primarily to help government decision making in their member states. BP and the IEA provide alternative scenarios and they stress that these should be seen as possible alternative futures, supported by a consistent set of assumptions and government, corporate and consumer actions. The graph shows a comparison of the oil demand outlook under the various scenarios. There are two different world views: One shows oil demand outlooks in a 'Status Quo' world, while the second shows views where the world more aggressively addresses climate change and greenhouse gas emissions.

The IEA presents two main scenarios plus a Net Zero case. The Stated Policies (STEPS) case is based on current policies and assumes that the pandemic is brought under control in 2021 through either a vaccine or therapeutics resulting in a quick economic revival and energy demand recovering to 2019 levels by 2023. They also present a version where the economy takes until 2023 to recover. The second scenario, the Sustainable Development Scenario (SDS), incorporates a surge in investments in clean energy technologies over the coming decade.

OPEC presents a so called 'Reference Case' where oil remains the dominant fuel until 2045. Global energy demand grows as the population continues to expand and developing countries expand their energy consumption, even though many countries implement more stringent clean energy policies. Internal combustion engines (ICE) remain dominant in the transportation sector, but electric vehicles eventually gain market share. Under their assumptions, oil demand continues to grow until about 2040 to a level 9.4 Mb/d above 2019. Oil demand growth will be especially strong in the 2022/23



Source: [IEA](#), [OPEC](#), [BP](#)

timeframe with 2.1 and 1.5 Mb/d respectively, driven by the economic recovery from Covid-19 and a catch-up demand from aviation, road transportation and industry.

BP presents a 'Business as Usual' scenario where policies and technologies continue to evolve in line with the recent past. In this scenario, oil demand will recover in the 2020's to exceed 2019, but peaks around 2030 and declines slowly thereafter. The two scenarios with more stringent climate policies ('Rapid' and 'Net Zero') both include significant increases in carbon pricing (up to \$250/ton of CO₂ (~\$800/ton FO) in the developed world by 2050) and other sector specific measures. The Net Zero scenario assumes significant additional shifts in societal behavior such as higher acceptance of low carbon energy technologies and distribution, adoption of sharing and more recycling in the economy (reduce waste and re-use), etc.

While the 'Status Quo' world still has some growth for the coming decade, it will be nothing like we had in the previous two decades. If the world decides to address environmental risks more seriously, global oil demand could decline by about a third or more by 2040 under each of these alternative scenarios.

While our industry will face changes from IMO regulations to reduce CO₂ emissions, their impact will be dwarfed by the market changes resulting from such a demand decline. How will an industry that uses assets with a 20-year life span adjust to potentially rapidly falling demand? The structure of the industry will likely have to change as well. Unless the fleet decline keeps pace with the drop in demand, owners will have a hard time adjusting, because a rise in demand cannot be relied upon to eventually solve an oversupplied market. The industry would need to consolidate rapidly or develop other strategies to aggressively promote scrapping. Without new construction, the fleet will likely age quickly and charterers that need modern tonnage will need to enter long term charters to get owners to order (and finance) new tonnage. A brave new world?