



POTEN TANKER OPINION



Changing Tides

How is the tanker market going to deal with Net Zero?

Earlier this week, the International Energy Agency (IEA) published a report (Net Zero by 2050; A Roadmap for the Global Energy Sector) providing scenarios and policy recommendations for governments to limit climate change. The report outlines three scenarios: One outlining a trajectory based on currently implemented and announced policies (STEPS); a second one assumes all stated pledges are achieved (even though most of these pledges are not yet underpinned by specific policies and legislation) and a third scenario outlining a potential path to reach the commonly stated goal of Net Zero Emissions by 2050. The tanker industry is affected in two ways by governments trying to implement such policies:

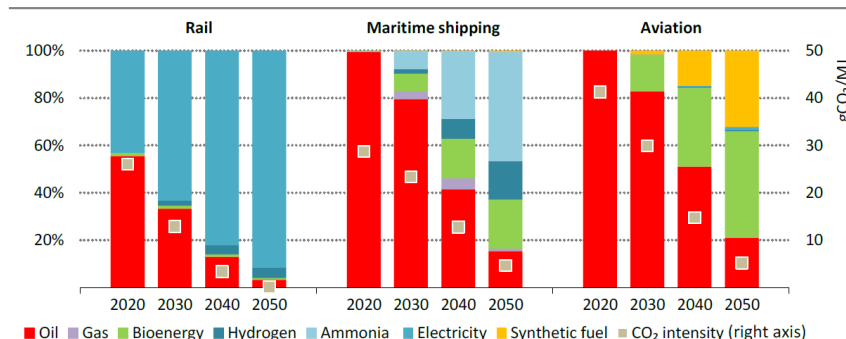
- The reduction of emissions from the maritime industry as they are being negotiated by the IMO affects the operations and construction of ships
- The significant reduction in global oil demand diminishes the demand for oil tankers

The IEA scenario does not forecast that the maritime industry achieves Net Zero emissions by 2050 due to a lack of low carbon options and the long lifespan of vessels. They envision the industry will initially reduce emissions through operational measures such as slow steaming and wind assistance technologies. In the medium to long term, the industry is expected to switch to low-carbon fuels such as biofuels, hydrogen and ammonia. By 2050, the report estimates that 60% of the marine fuel consists of hydrogen (~15%) and ammonia (~45%) while biofuels account for 20%. Electricity use is limited to short sea shipping.

The primary approach to reduce the use of fossil fuels is to electrify the economy. Although oil plays only a minor role in power generation, electricity will replace large shares of processes that currently rely on oil, especially for transportation and in buildings. The Net Zero scenario estimates that global oil demand will decline by 15% by 2030 and by almost 75% by 2050. Under this scenario, oil producers don't need to develop new fields, investments can be limited to the maintenance of existing fields.

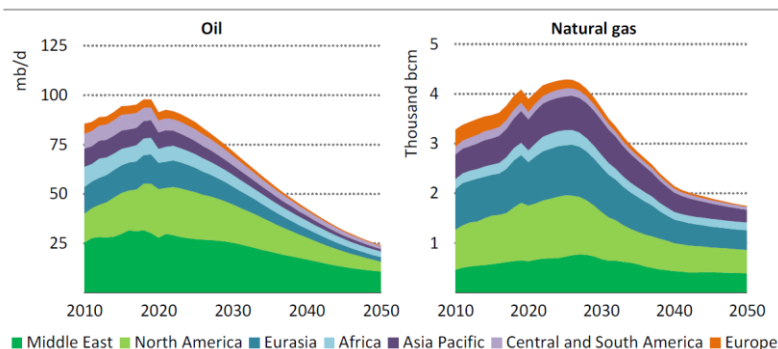
While the purpose of a scenario like this is not to provide a prediction of what will happen in the future but rather to explore what would be required to achieve the target of Net Zero emissions by 2050, it is likely that global oil demand will decline significantly in the coming decades.

Global oil demand has almost consistently grown since the mid 1980's, with only minor exceptions after the financial crisis in 2008/09 and during pandemic in 2020/21. The key question is how the oil tanker industry will deal with declining demand.

Global Energy Consumption by Fuel and CO₂ Intensity
In Non-Road Transportation Sectors

Source: IEA

Oil and Natural Gas Production in Net Zero Emissions Scenario



Source: IEA

The de-carbonization of the shipping industry could support increased scrapping if fuel costs increase (especially if carbon taxes are introduced) and older, less fuel-efficient ships become less competitive in the market. Unless the competitive landscape changes, it will be challenging to renew the fleet in a highly fragmented industry. Charterers might have to pay a premium for low-emission tankers that use alternative fuels, either through medium to long term time charters or through higher spot market rates to guarantee owners a return on their investment.

The tanker market is currently highly fragmented and owners will have to consolidate to deal with the declining volumes while maintaining adequate returns. Currently, tanker companies use well-timed acquisitions and disposals to improve long term profitability. In a consistently shrinking market, the cyclicity, which is a characteristic of the current market, may disappear or decline and owners will need find other ways to earn adequate returns on operating their ships.

To a limited extent, the Net Zero emissions policies will also offer new opportunities for tankers. The new fuels, such as ammonia and biofuels may need to be transported, possibly over long distances, to move them from surplus to deficit areas. This will create demand for specialized tankers.