Business

FRIDAY, JUNE 5, 2020

CARACAS: Drivers queue to refuel the tanks of their cars near a gas station, in Caracas on Wednesday. Falling fossil fuel demand coupled with mounting risk for investors could slash the value of oil, gas and coal reserves by two thirds, energy analysts warned yesterday. — AFP

Demand for oil, gas faces terminal fall

Energy analysts warn of mounting risk for investors

PARIS: Falling fossil fuel demand coupled with mounting risk for investors could slash the value of oil, gas and coal reserves by two thirds, sending shock waves through the global economy, energy analysts warned yesterday.

The value of projected profits for the sector could also fall by two thirds, according to a report from Carbon Tracker, a non-profit financial think tank focused on aligning capital markets with climate policy. Competition from clean technologies along with government policies to achieve climate targets and energy security are pushing the fossil fuel industry toward "terminal decline", the study concluded.

"Terminal decline starts when demand peaks," lead author Kingsmill Bond, Carbon Tracker's new energy strategist, told AFP.

"Global coal demand, for example, peaked in 2013 and has never recovered to that level."

Before the coronavirus outbreak, many analysts predicted global demand for oil and gas would peak in the mid-2020s, while the International Energy Agency (IEA) forecast a plateau towards the end of the decade for oil. But the economic meltdown triggered by pandemic lockdowns across the world starting in March could accelerate that process.

"We may now have seen peak fossil fuel demand as a whole," said Bond, who worked for 25 years in equity research. "When a cyclical shock hits a sector already facing structural decline, it brings forward the peak in demand." The IEA foresees an eight percent drop in fossil fuel demand in 2020 due to the pandemic.

"Nobody knows how much the recovery will be in 2021," said Bond. "But if the recovery is half, and if the fossil fuel industry returns to a growth rate of one percent, it will take until 2025 to get back to 2019 levels." "By then, renewable energy technologies will be large enough to supply all the growth in energy demand."

In 2019, renewable power—mainly solar and wind—already accounted for 72 percent of all expansion in the electricity sector, the International Renewable Energy Agency (IRENA) reported last month. When a challenger technology takes all the growth, the incumbent—by definition—enters into terminal decline, experience in other sectors has shown. That threshold is typically crossed when the challenger has five percent of market share.

Collapse of future profits

Renewables already account for about a quarter of electricity generation, but—not counting hydro, which has less potential for expansion—only about four percent of global primary energy consumption.

"Now is the time to plan an orderly wind-down of fossil fuel assets and manage the impact of the global economy rather than try to sustain the unsustainable," Bond said. Shell's first dividend cut since World War II, Repsol's write-off of nearly five billion euros ($5.6 billion) last year, and a wave of bankruptcies in the US shale oil sector all point to possible structural change.

And yet oil and gas companies are forecasting growth in demand for their products. Indeed, the fossil fuel system as a whole has been investing about $5 trillion annually on new supply and demand infrastructure for several years running. The size of the fossil fuel economy—about $10 trillion in supply infrastructure, and $22 trillion in demand infrastructure—means its rapid decline could pose a threat to financial stability, the report concluded.

"Companies across the fossil fuel system are worth $18 trillion in listed equity, making up a quarter of the total value of global equity markets," it said. — AFP