POTEN & PARTNERS

June 14
2024

HOUSTON / NEW YORK / LONDON / ATHENS / SINGAPORE / GUANGZHOU / PERTH

POTEN TANKER OPINION

Is Oil Running Out Of Gas?

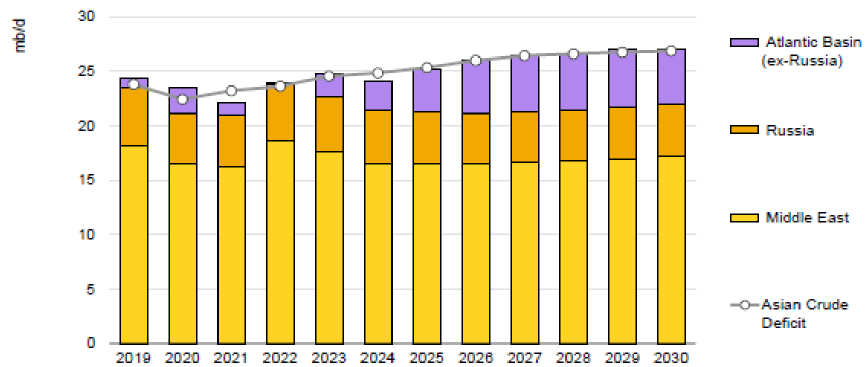
IEA warns again that oil demand will peak this decade

So far this year, we have seen new oil discoveries and developments in Guyana, Suriname, Senegal as well as the startup of exports from the Trans Mountain Expansion in Vancouver and oil flowing from Niger via a pipeline through Benin. While not as fast as in recent years, shale oil production is still growing in the U.S. In theory, rapid production and export growth from these countries should be a boon for the tanker market. None of them are OPEC+ members and therefore not subject to production and/or export quota. Furthermore, most of these producers are located in the Atlantic Basin, while demand growth continues to be concentrated in the Pacific, boosting long-haul tanker demand. However, there is a possible fly in the ointment. According to the latest IEA report, called “Oil 2024”, global demand for oil will peak in 2029 and start its decline thereafter. This forecast spells trouble for the OPEC cartel and possibly for the tanker market. Let’s take a closer look at the IEA’s projections, OPEC’s counterarguments and what this could mean for the tanker market.

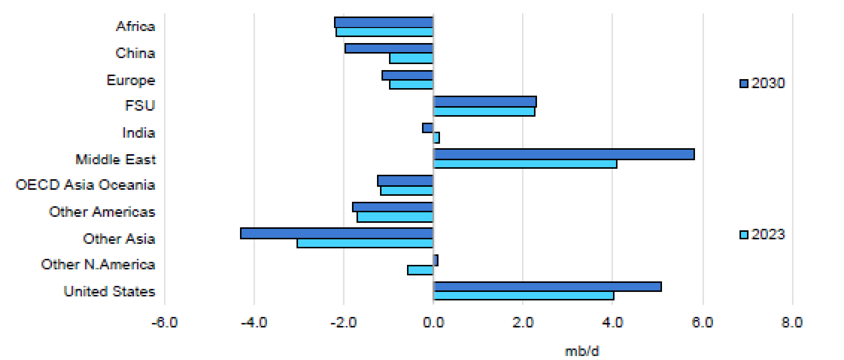
Let’s set the scene: The IEA forecasts in this report that global oil demand will peak in 2029 at 105.6 Mb/d, up a modest 2.4 Mb/d from this years’ estimate of 103.2 Mb/d. Over five years, this represents an anemic annual average growth of 500 Kb/d. Non-OECD Asia will continue to grow, in particular India and China, but demand in OECD countries is declining. Oil demand in OECD Europe has been dropping for several years already, but the IEA expects that even North America will start consuming less oil after it peaks in 2025. The key drivers behind the decline in oil demand are the shift towards electric vehicles (EV’s) and the substitution of oil with gas or renewables in the power sector. According to the IEA, the growing penetration of electric vehicles will displace 6 Mb/d of gasoline and diesel demand by 2030. For this scenario to play out, however, EV sales have to pick up steam in Europe and the U.S. At the moment, EV’s are primarily a Chinese phenomenon. Chinese carmakers produce more than 50% of all EV’s sold globally and they buy 60% of all EV’s. Europe accounts for 25% of sales and the U.S. for 10%. However, the mass penetration of EV’s in the West is not a given. In China, EV’s are cheap, representing the lower end of the market. In the West, EV’s are much more expensive, and sales growth has slowed after the early adopters made their purchase. Furthermore, both Europe and the U.S. levy high tariffs to keep the cheap Chinese EV’s off the domestic roads.

What does all this mean for the tanker markets? For crude oil tankers, the long-term outlook is mixed. Moving more oil from the Atlantic to the Pacific will help ton-mile demand, as will the continuation of the Western sanctions against Russian crude exports, which means they will be most exported to Asia. More

Net crude oil exports versus Asian import requirement, 2019-2030



Regional balances for total refined products, 2023-2030



Source: IEA

emphasis on long-haul movements typically benefits the larger crude carriers, but the situation in Russia and the growth in Canadian exports will support Suezmaxes and Aframaxes as well. However, if global demand is not growing, OPEC+ output has nowhere to go amid the expansion of Non-OPEC production. There could be some replenishment of global oil stocks, but that provides only a temporary boost. In the long-term, a flat lining of global oil demand does not represent a favorable outlook for the crude tanker sector. If the IEA predictions come to fruition, crude tankers that are being ordered now should be seen as replacement tonnage rather than growth capacity.

The outlook for the product tanker market could be slightly different than for the crude oil tankers, even though there are similarities. As can be seen in the second graph above, many of the regions in the world are short of product, while the FSU, United States and the Middle East are long (and getting longer over time). This will boost product longer-haul trades, supporting product tankers. It is also possible that more OPEC members will follow the example of Kuwait, which boosted domestic refining capacity and now exports more refined products (which are not subject to quotas) than crude. This would shift more trade from crude oil to product tankers.

Obviously, the IEA outlook is subject to a lot of uncertainty and geopolitical events and global economic developments can change the trajectory of these forecasts. This is unfortunate for shipowners that are considering investments in assets with a 20 to 25-year lifespan. They would prefer a little more certainty.