



POTEN TANKER OPINION



Jet Fuel Taking Off

Jet Fuel demand is still recovering from the pandemic

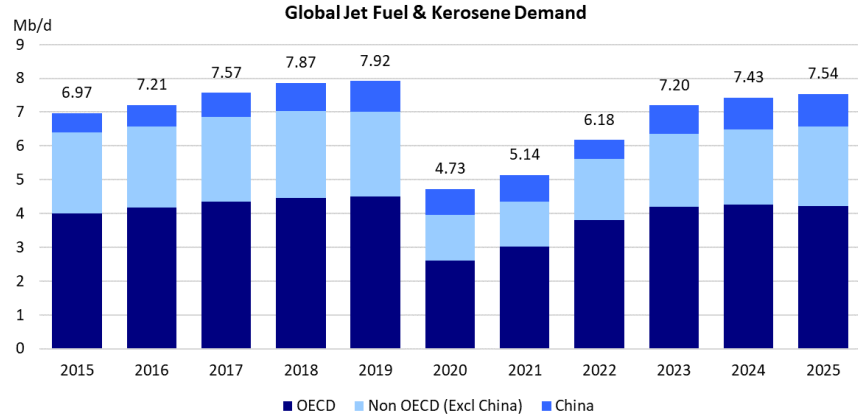
Global jet fuel demand was affected significantly during the pandemic when countries closed their borders and airlines drastically reduced flights as passengers decided to stay home. In the last two years, business and leisure travel has recovered significantly. This week we will take a look at current and future global jet fuel demand and the impact on the product tanker market.

In 2020, many countries restricted travel and additionally, passengers voluntarily limited their flights as COVID-19 spread. As a result, global jet fuel demand declined by 3.2 Mb/d (40.3%) in 2020. OECD demand declined by 42.2% while Non-OECD fell slightly less by 37.7%. Chinese jet fuel demand declined by only about 16.5% in 2020, as they managed relatively quickly to get the spread under control; but then declined again (by 28.6%) in 2022, as parts of the country locked down again when the disease reappeared.

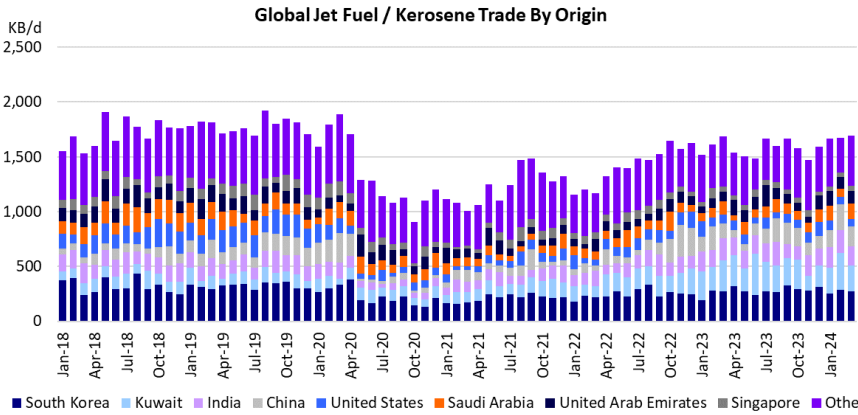
Statistics from the International Energy Agency (IEA) show that global demand of jet fuel and kerosene was about 7.2 million barrels per day (Mb/d) in 2023 or about 7.1% of total oil demand (see chart 1). While this is a significant improvement from the 4.7 Mb/d demand level of 2020, it is still about 700 Kb/d below pre-pandemic levels. IEA forecasts continuing recovery of jet fuel demand in 2024 and 2025, but they expect demand to remain below the 2019 level for those years.

Interestingly, while oil demand is still lower, commercial passenger travel statistics have fully recovered from the pandemic. IATA data shows that February 2024 total passenger traffic (in Kilometers travelled by paying customers) was 5.7% higher than in 2019. Radarbox (a flight tracking website) graphs show that the number of flights in each major geographic region now exceed 2019 levels. Other types of aviation that they track (such as cargo flights, military flights, business flights, etc.) are also all higher than 2019 levels. This illustrates the efficiency gains that the airline industry has achieved as older planes operating prior to the pandemic, have been replaced by more fuel-efficient new planes.

Seaborne transportation of jet fuel and kerosene has developed in line with global demand (see chart 2). According to Vortexa, 1.57 Mb/d of jet fuel and kerosene was moved on tankers in 2023, about 22% of global demand, a similar share as in 2019. As the graph shows, the largest four exporters are all in the Pacific Basin, representing 53% of total seaborne volumes. Chinese exports have recovered to pre-pandemic levels while exports from Kuwait have grown significantly in recent years. Looking at the trade from an importer perspective shows that the largest importers are the UK (2023: 215 Kb/d), the US (158



Source: IEA



Source: Vortexa

Kb/d) and France (120 Kb/d). The vast majority of jet fuel cargoes is shipped on MRs.

Longer term prospects for jet fuel demand and seaborne transportation also look positive, especially in Non-OECD countries. A growing middle class, as a result of continued economic development in these countries, will lead to a significant rise in aviation demand. This growth will be somewhat offset by continued fuel efficiency gains of airplanes.

In contrast to some other transportation sectors, electrification will likely play a minor role in the aviation industry. Airlines are starting to use Sustainable Aviation Fuel (SAF) for some of their demand. SAF is generally produced from renewable biomass and waste resources and has similar performance characteristics to regular jet fuel. For example, Boeing and Neste recently announced an agreement in which Boeing would buy 22,700 tons of 30% SAF blend from Neste to be used in their commercial operations. From a shipping perspective, SAF is similar to regular jet fuel and will also be moved in tankers, the main difference might be that it is produced in different places and initially in smaller volumes.

As the above illustrates, demand prospects for aviation fuel look positive for the short term as well as for the longer term. Oil tanker demand from the transportation of jet fuel is expected to grow in line with global demand.