



# POTEN TANKER OPINION



## The Beginning of the End?

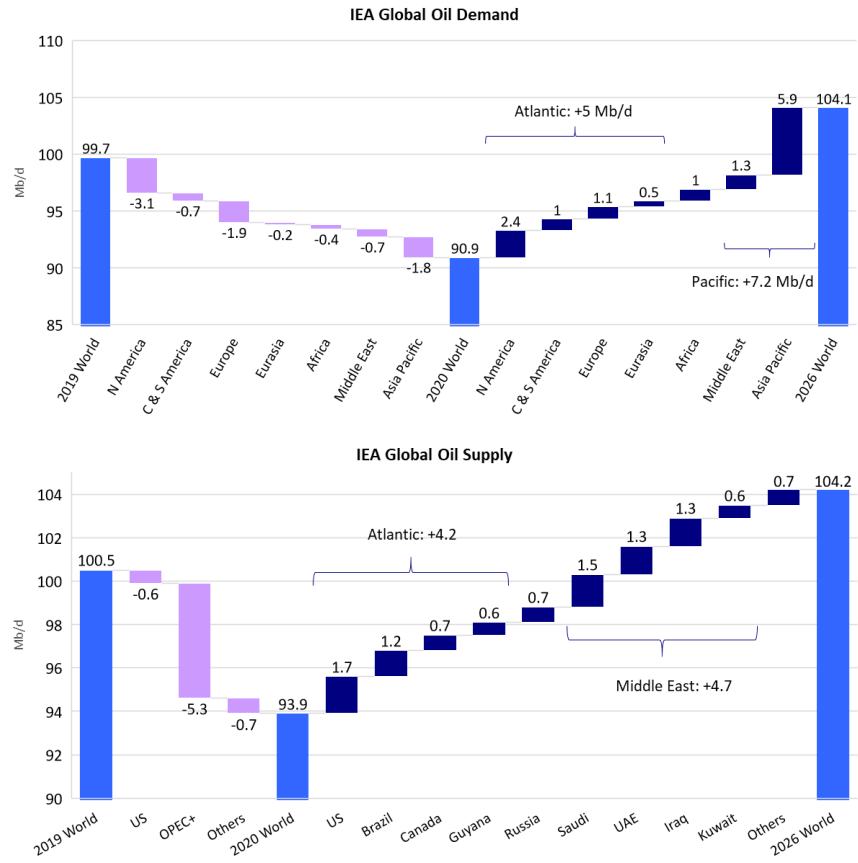
### IEA expects lower oil demand growth post Covid-19

This week, the IEA published “Oil 2021 – Analysis and Forecast to 2026”, its medium-term outlook for oil supply and demand. The changes compared to last years’ outlook are quite significant, but not unexpected. Not only did the Covid-19 crisis cause an unprecedented collapse in oil demand, it also permanently changed behaviors and it seems to have refocused global governments attention on the need to address climate change and reduce carbon emissions. Even after the global health crisis is brought under control, the world will likely be on a different energy trajectory than prior to the pandemic with less oil demand growth and more focus on renewable energy. This will bring profound changes for the tanker markets. Our business can no longer take growing demand for its services for granted, so managing vessel supply becomes even more critical.

Even though this years’ outlook is quite different from the previous one, there are a number of developments that are either continuing or resuming. The shift from OECD to non-OECD continues unabated. All the expected oil demand growth is coming from emerging and developing markets, primarily in Asia, driven by population growth and rising incomes. In contrast, oil demand in the developed economies of the OECD will rebound from the depth of 2020 but is not expected to return to pre-pandemic levels. The growth in North America and Europe shown in Chart 1 is purely driven by a snap-back in 2021/2022. No long-term growth is expected thereafter. As a matter of fact, oil demand in both North America and Europe is expected to peak in 2024. Over the next 5 years, North America only recovers 77% of the demand decline it suffered in 2020 (2.4 Mb/d growth versus 3.1 Mb/d decline). The situation in Europe is even worse: oil demand declined by 1.9 Mb/d in 2020 and only 1.1 Mb/d (58%) is coming back in the period up to 2026.

As we know the health of the tanker market is more dependent on ton-mile demand than pure oil demand. Distances matter a lot. Here the outlook is slightly brighter. As Chart 2 shows, crude oil supplies in the Atlantic Basin are forecast to grow almost as much as those in the Middle East (4.2 Mb/d versus 4.7 Mb/d). And, since we already observed that most of the demand growth will be in Asia, the ton-mile picture looks rosier as a significant portion of the additional crude from the U.S., Canada, Brazil and Guyana will probably end up in Asia. Crude oil tankers will benefit from this trend, in particular the larger vessels used for long-haul trades: VLCCs and Suezmaxes.

Product tankers are facing different dynamics over the next five years. The IEA report indicates that there is significant excess capacity in the global refining sector. Covid-19 created significant challenges for refiners around the world and the



Source: IEA: Oil 2021

subdued outlook for global oil demand over the next five years means that these problems are not going away. Strong growth in petrochemicals cannot compensate for the declining demand for transportation fuels (gasoline, diesel and jet fuel) as well as a growing percentage of oil demand that bypasses the refining sector altogether (NGL’s, biofuels, etc.). A total of 3.6 Mb/d of refinery closures have already been announced, but according to the IEA, at least 6.0 Mb/d of processing capacity has to go to bring utilization rates back above 80%.

The downstream industry continues to expand East of Suez, where 90% of the new capacity is being built. Shutdowns are happening all over the globe, but North America, Europe and Australia/New Zealand are the main regions facing capacity cuts. The implications for the refined product trades are significant. The IEA projections show that refinery closures will lead to more refined product imports in Europe, Australia and New Zealand, creating significant ton-mile demand. Growth in refining capacity in Latin America and Africa will reduce product flows into these regions. Globally, smaller, less efficient refiners close and are being replaced with larger facilities. For the long-haul product trades, this could mean a shift towards larger tankers (LR1 and LR2), although MRs will likely remain the workhorse of the product trades in the Atlantic and the Pacific Basins.