Will Peak Oil Demand Arrive Sooner than Expected?

Description

After decades of economists proclaiming that peak oil supply is imminent and that it would push oil prices to record highs, a new school of thought has emerged claiming that peak demand for oil is on its way, which many believe will cause the price of crude to decline significantly.

You see, rapid technological advances have allowed energy companies to extract oil that was previously thought to be extremely costly or even uneconomical, triggering the shale oil boom that saw the U.S. overtake Saudi Arabia to become the world's largest oil producer. Now the fear is that demand for oil will peak and then decline, meaning that global oil production will exceed consumption, thereby putting considerable pressure on oil prices, which are already weighed down by greater than expected supply.

Now what?

Many energy majors have been planning for the day when global oil production exceeds demand, which they believe is at least three to four decades away. However, many analysts and industry insiders believe that this is the greatest threat to the oil industry.

However, some industry analysts believe that peak oil demand will occur far sooner. In its latest report, influential industry consultancy Wood Mackenzie predicted that peak oil demand would occur as soon as 2036. The reasoning for this is simple; not only is oil production growing at a rapid clip driven by technological advancements in drilling and fracking technology, but the uptake of electric vehicles (EVs) is expected to occur at a far greater rate than initially predicted. This will in turn have a sharp impact on demand.

The consultancy believes that the autonomous EVs will be commercially viable by 2030 and in widespread use by 2035. Wood Mackenzie believes that those vehicles will displace more gasoline consumption than traditional EVs because their use will become widespread, most notably for freight and mass transport systems. Because the refining and production of gasoline is the single largest use of crude globally, this will have a sharp impact on demand growth for oil.

Already a number of countries have introduced targets for EVs. China has introduced a range of

generous subsidies aimed at boosting their uptake, which were responsible for causing the volume of EVs sold in 2017 to expand by 53% year over year and become four times greater than the U.S.. In Norway, EVs and hybrids account for over half of new vehicle sales, which has implemented policies aimed at ensuring that all cars sold by 2025 have zero emissions. That will essentially make EVs the only viable option.

Once peak demand is reached, it isn't hard to see a marked decline in oil prices as demand flattens and then declines.

That isn't good news for the global oil industry and it is particularly bad for Canada's energy patch. This is because roughly half of all oil produced in Canada comes from oil sands, and there are high costs associated with developing oil sands assets as well as producing oil from them.

The industry is also under significant pressure because of its high level of carbon emissions, with it reportedly being Canada's single largest producer of greenhouse gases. There is also the significant discount applied to Canadian heavy oil, which sees Western Canadian Select (WCS) trading at roughly US$20 a barrel less than West Texas Intermediate (WTI). All of these factors make it highly inefficient to extract crude from the oil sands, which could see them become a stranded asset in a world where peak oil demand arrives sooner than expected.

In 2016, integrated energy giant **Suncor Energy Inc.** (TSX:SU)(NYSE:SU) recognised the growing likelihood of a large portion of its copious oil sands reserves becoming unviable to operate. In response, the company has focused on allocating capital to developing assets, which offer the highest returns while dialing down investment in less economic projects.

So what?

Whether peak oil demand occurs when Wood Mackenzie has predicted is difficult to anticipate. However, it does indicate that there is a cap on the life of oil investments and that it is only a matter of time before higher cost petroleum assets like the oil sands become uneconomic to operate.

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