

Market Report Series: Oil 2017

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OIL 2017

Analysis and forecasts to 2022

Corrigendum

Please note that despite our best efforts to ensure quality control, errors have slipped into Market Report Series: Oil 2017

The text in pages 13 and 26 has changed. It should be replaced by the following pages.

This net global figure contains OECD demand falling by an average 0.2 mb/d per year due to long term trends in fuel efficiency standards – discussed in detail in the demand section of the report – and changing demographics. In the non-OECD countries, there is still plenty of growth potential and we expect an upside of 1.4 mb/d each year to 2022. India, particularly, is gradually becoming the focus of attention as Chinese demand growth slows. Twenty years of strong demand growth in China, fuelled by rapid industrialisation and infrastructure spending, is giving way to a slower pace as the Chinese economy moves towards a services and consumer-led structure. In the five years to 2016, Chinese demand grew by 4.8% a year, compared with growth of 5.5% in the five-year period ending in 2011. For the period to 2022, China's demand will grow at an average annual rate of 2.4%.

Indian per capita oil consumption is just 1.2 barrels per year today, and the number is expected to reach 1.5 barrels per year by 2022. This compares to China's 3 barrels per capita per year today, a figure expected to be 3.5 by 2022. Although a direct comparison between India and China does not take into account societal and economic differences, the overall point is valid; there is clearly still plenty of growth to come from India. Indeed, that is also probably true for transportation fuels in many other developing economies, as more families move up the income scale and buy their first car. In our forecast period, this will almost certainly be gasoline-fuelled. While the much-discussed growth in the electric vehicles fleet is a very important longer term issue for oil demand, by 2022 we estimate that only limited volumes of global transport fuel demand will be lost to EVs from conventional fuels.

This Oil 2017 market report also looks at the implications of tighter vehicle efficiency standards now being applied to trucks for transport fuel demand. Even though big savings will be achieved over time, within our five-year outlook it is a question of merely slowing the rate of growth, rather than seeing a major change to the pattern of demand. The change in marine fuel specifications due to take place in 2020, another issue affecting transport fuels growth, is also analysed in some detail in this report. Although there are considerable uncertainties around the implementation of the International Maritime Organisation's regulations, we estimate that 0.2 mb/d of fuel consumption will be lost to the specification change and to LNG. For all these reasons, the much-discussed peak for oil demand remains some years into the future.

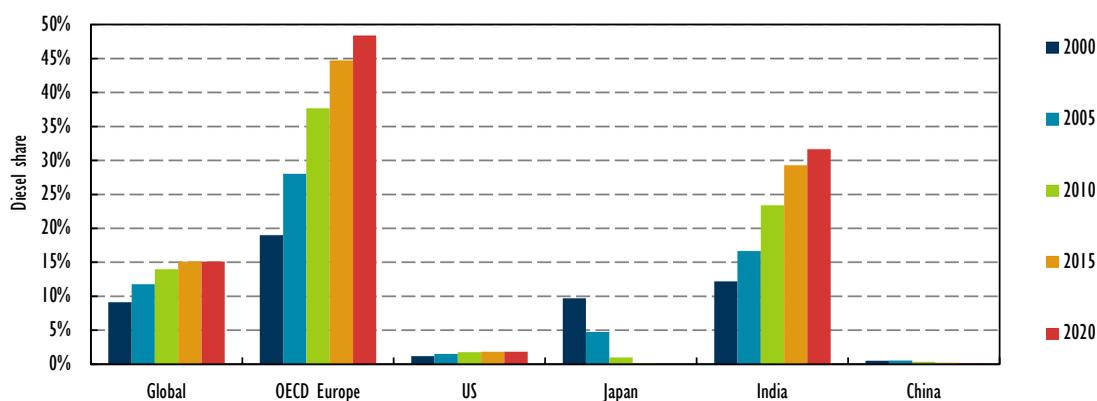
With oil demand growth expected to be steady, there are many issues on the supply side that shape our forecast. Perhaps the most relevant, because it is going on right now, is the pace at which LTO producers in the United States are able to turn the big increase in drilling activity we have seen in recent months into sustainable production growth. We believe that by the end of 2017, LTO production will be approximately 500 kb/d higher than a year earlier. Even in a world where oil prices do not move sustainably above USD 60/bbl, LTO production will continue to grow through 2022, adding 1.4 mb/d over the period, reflecting the enormous cost savings and efficiency improvements that have been made in what remains to a certain extent an experimental sector of the oil industry. If oil prices were to rise sharply to, say, USD 80/bbl our sensitivity analysis suggests that LTO production could rise by as much as 3 mb/d by 2022. The other countries that are expected to see their production increase significantly in our forecast period are Brazil, Canada and Kazakhstan, which will see their cumulative output rising 2.2 mb/d by 2022, reaping the rewards of investment decisions taken before oil prices declined. Total non-OPEC supplies are expected to rise 3.3 mb/d over the period.

Box 1.3 Emissions concerns impact dieselisation (Continued)

In September 2016, when Brent crude averaged USD 47/bbl, www.carbuyer.co.uk concluded that when purchasing a new car, taking into account all differences in purchasing prices/taxes/pump prices/servicing costs, only “if you do over 12 000 miles a year (does) a diesel makes more sense”.

Recent efforts to narrow preferential tax treatments for diesel versus gasoline, such as those seen in France, or reducing subsidies on diesel versus gasoline, as occurred in India, provided fundamental support for gasoline, restraining diesel’s previously increasing share of the global passenger fleet from 9% in 2000, through to 14% in 2010 and 15% in 2015. A flattening, at around 15% is then forecast through 2022, keeping the road diesel forecast somewhat restrained versus its previous trend.

Figure 1.11 Slowing pace of dieselisation



Europe

European oil product demand posted two consecutive years of 0.2 mb/d growth in 2015-16, something last seen in the mid-1990s. This is unlikely to be repeated anytime soon as Europe will continue to see modest economic growth and faces gradually increasing oil prices. Oil product demand is accordingly forecast to decline by approximately 570 kb/d, 2016-22, equivalent to a per annum decline of 0.7%.

The recent resurgence in demand, versus the five-year decline trend seen in 2010-14, was felt across most products and sectors. Increases in gasoil accounted for the largest share of the adjustment (33%), but not all products returned to absolute growth, as residual fuel oil and ‘other gasoil’ demand continued to fall while gasoline consumption flattened.

Declines across European road transport and industrial oil demand lead the forecast downwards. This includes a deceleration in the pace of dieselisation, reflecting growing concerns about diesel particulate emissions. This change will be particularly apparent in countries like **France**, where there is increasing concern about urban air pollution and thus changes have been made to the taxation treatment of diesel (Box 1.3 Emissions concerns impact dieselisation). Having expanded sharply, 2000-15, the share of diesel vehicles in the European passenger light duty vehicle stock is forecast to slow through 2020; as the share respectively rose from 19% in 2000 to 45% by 2015 but is only forecast to inch up to 48% by 2020 (Figure 1.10).