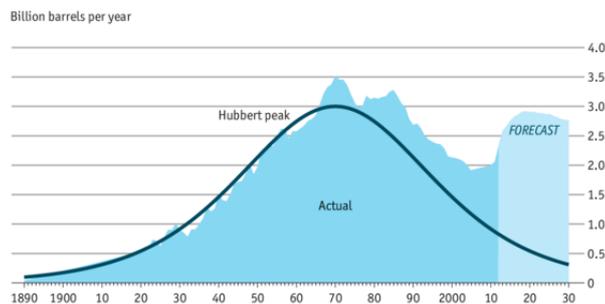


## Oil consumption to peak: Never mind the price—Perry Sioshansi's letter from America

For some time, there has been speculation about peak oil—not the kind predicted by famous geologist King Hubbert, who in 1950s predicted that US oil production would begin to decline in mid-1970s—but what might be called peak oil demand. We are talking about oil *consumption*, not the ability to physically extract more oil from the ground.

In 2012, the world renowned oil guru Daniel Yergin, the head of CERA, joined others by declaring that the US “has already reached what we can call peak demand.” A forecast released around the same time by the Energy Information Administration concurred, stating that US gasoline consumption had *most likely* reached a peak and would steadily decline for the foreseeable future.

### A different kind of peak oil, it is called peak oil demand



Source: *The Economist* based on data from BP

By August 2016, however, US gas consumption was at a new peak, surprising many experts and non-experts. The explanation is that the US economy is only now recovering from the 2008 global financial crisis and, more important, with current depressed oil prices – gasoline is currently at new lows in the US – encouraging Americans to drive more and buy bigger cars – something they always do whenever they can get away with it.

In a blog posted on 26 September 2016, Lucas Davis of Univ. of California Berkeley wrote, “August (2016) was the biggest month ever for US gasoline consumption. Americans used a staggering 9.7mn barrels per day. That’s more than a gallon per day for every U.S. man, woman and child.”

Looking at the reversals of the past decade, Lucas says: “[...] US gasoline consumption had declined for five years in a row and, in 2012, was a million barrels per day below its July 2007 peak. Also in August 2012, President Obama had just announced aggressive new fuel economy standards that would push average vehicle fuel economy to 54 miles per gallon.” He added: “Fast forward to 2016, and US gasoline consumption has increased steadily four years in a row. We now have a new peak.”

Oil and auto companies must be celebrating. Even if they are not making a lot of money due to the depressed oil prices, at least the demand for gasoline is rebounding.

But the celebration may be short-lived. Setting aside the fluctuations in oil prices, the longer-term outlook for US and global oil consumption is *not* necessarily bullish. In fact, some analysts are convinced that the peak oil consumption may be upon us at a time of economic growth and historically low oil prices. How could this be?

To start with, cars are getting more efficient the world-over. Moreover, car ownership does *not* necessarily translate into *improved mobility* in congested cities of the world. New car owners simply join other frustrated drivers in congested roads.

In the meantime, new auto sales—the internal combustion engine (ICE) variety—show signs of weakness while the sale of electric vehicles (EVs) are taking off, and they don’t need any gas.

According to a 14 September article by *the FUSE*, year to date auto sales in the US were down by 4.1% despite a 15.6% drop in retail gasoline prices since Sept 2015. Electric vehicle sales, on the other hand, are up 42% year-over-year. A recently released report by GTM research predicts 11.4mn EVs in the US alone by 2025.

That is not the end of it. With many automakers working to beat each other with driverless EVs, their costs are expected to drop precipitously over the next five to 10 years as EVs move from niche products to mainstream, increasingly appealing to middle class families, not just the affluent ones, as is currently the case. And you don’t have to be environmentally committed to enjoy the superior performance and the quiet of non-polluting EVs.

Fast forward to 2020s and the narrative gets even worse for both car and oil companies. Once driverless EVs begin to enter the mass market, the case for *owning* a car becomes even less compelling, certainly for millions of millennials living in congested urban areas.

Already, half the world's population lives in cities. By 2050, over two-thirds will be city dwellers. Congestion and lack of parking will make car ownership onerous for virtually all. A turning point will emerge—or perhaps is already upon us—when owning a car will no longer enhance one's mobility. Public transport, walking or a bike already offer better alternatives in congested cities.

Enter disruptive companies such as Uber, Lyft and their counterparts in big markets including China, India, Indonesia, Nigeria and so on, and one begins to see the beginning of the end of private car ownership. Who needs a car when you can hail a driverless one that will pick you up, drop you off and be on its way to serving the next customer?

Who will miss the costs—purchase price, fuel costs, insurance, maintenance, various license fees, toll fees—and the hassle of finding parking?

The gradual decline of cars as means of getting around in big cities is already manifested in nearly all major cities around the world, as illustrated for London in graph below on right, from a recent issue of *The Economist*. Bicycles, once popular in a few cities such as Amsterdam and Copenhagen, are now a rage across Europe and many Asian cities (graph below on left), with a growing number being shared rentals – now ubiquitous everywhere.

Alas, the dawn of the peak oil demand may be upon us at last, and not because the world is running out of oil, or because price of oil has reached such high levels that consumers can no longer afford, it or because of a global financial crisis as in 2008.

The irony of the matter is that shared driverless EVs may make the price of oil and even the price of new cars—electric or otherwise—a moot point. Who needs to *own* one if you can get from point A to point B safely, in convenience and without having to worry about parking, oil, insurance, costly repairs, license fees, and car maintenance?



While some aspects of such a scenario may be farfetched for some to stomach—for example people in rural areas may continue to own and drive cars long after their urban dwellers have abandoned the habit—it is a reality for others. Uber started offering driverless service in Pittsburgh in September 2016, as did Singapore. Uberworld was the cover story in 3 September 2016 issue of *The Economist*.

Oil companies have enjoyed a long and profitable run. Their supremacy, however, will increasingly be challenged. In 2006, ExxonMobil was the world's most valuable listed company. By 2016, it has moved down the rankings. By 2026 it will most likely no longer be among the top 10. It may still be a huge and profitable company, but no longer as huge or as profitable as the new emerging enterprises of the future.

Even more telling is that today's best and smartest graduates are increasingly attracted to work for the rapidly growing companies of the future, the likes of Apple, Alphabet, Facebook, Uber, Tesla, Amazon. The best days of oil, like the best days of railroad or coal barons, may be behind us.

**Perry Sioshansi is founder and president of Menlo Energy Economics and is the editor and publisher of *EEnergy Informer*, from which we have sourced this article, and which we commend.**

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