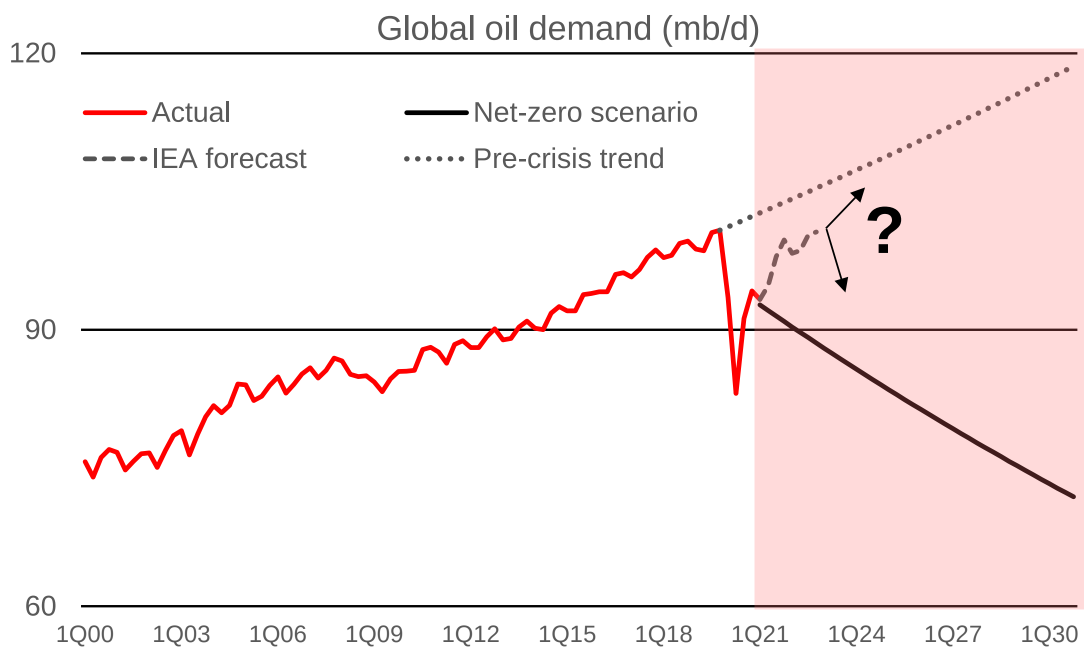
# Moving away from oil: The gap between pledges and actions




Source: IEA, UniCredit Research

- The International Energy Agency recently issued an influential report, outlining a new energy-sector pathway towards achieving net-zero emissions globally by 2050. The IEA stated that a net-zero scenario requires oil demand to decline, on average, by 4% a year between 2020 and 2050, when it should reach 24mb/d. This would mean that global oil consumption in 2050 would be around 75% lower than before the outbreak of the coronavirus pandemic. In the current decade, and taking into account the necessary behavioral and infrastructural adaptation to a new energy regime, the decline would be more moderate, with oil demand declining to 72mb/d in 2030 from 91mb/d in 2020 – an average annual contraction of 2.6%. Our *Chart of the Week* shows the gap between hopes for a fast exit from fossil fuel and the hard reality of a difficult energy transition.
- The reopening of the global economy and the gradual normalization of the health crisis is leading consumers and firms to resume their old energy habits. According to the most recent IEA forecast, oil demand, instead of declining in line with a net-zero scenario, is expected to rise back to its pre-pandemic levels by 2022, returning to above 100mb/d – around 12% higher than would be required for a smooth green transition. In OECD countries, demand in 2022 is expected to stabilize at around 46mb/d, 1mb/d lower than in 2019 thanks to teleworking arrangements, higher electric vehicle sales and the increased efficiency of new car models. However, in non-OECD economies, demand in 2022 is expected to be 2mb/d higher than in 2019, hitting 53mb/d, with most of the increase coming from Asia. Considering that the slow vaccination campaign in these economies is weighing on the demand forecast, the expected rise would have been significantly higher otherwise. Clearly, the net-zero path presented by IEA represents only one of the many ways to achieve the target in 2050. But the longer it takes to start the process, the bigger and more costly the adjustment in the future.
- This bifurcation between advanced and emerging/developing economies is symptomatic of the challenges posed by the departure from traditional energy sources, which requires massive infrastructural and technological investment, along with changes in habits. Moreover, in the short-term, green plans like Next

Generation EU in Europe and Build Back Better in the US might have the unintended consequence of boosting demand for polluting commodities, oil included, that will be required to carry out the investment projects that are necessary to lay down the foundations for more environmentally friendly economies. And producers are sensing that the oil era is not over yet and, after having frozen or cancelled several projects at the peak of the pandemic, producers of non-conventional oil have re-started exploration of new oil fields, although they will not lead to significant extra supply before 2023.

- Whether oil demand will land on its pre-pandemic path or on the net-zero one is only one element of a multifaceted energy transition that will depend on the willingness of governments to move from pledges to actions. IEA argues that, although the number of countries that have committed to achieving net-zero emissions by 2050 now account for around 70% of global emissions of CO2, today's promises will fall short of their net-zero goals, leaving around 22bn tons of CO2 emissions worldwide in 2050 – a trend that would be consistent with a global temperature rise of around 2.1°C by 2100. Governments should leverage a variety of policy tools, from subsidies to taxes and regulation, to incentivize energy efficiency and electrification, while pushing for the adoption of renewable energy sources and the development of carbon capture technologies. Moreover, the US and Europe, ideally with the engagement of China too, should set adequate trading standards to force the green transition elsewhere, while facilitating access to green technologies for lagging economies. Ultimately, consumers and firms should play their role, adapting their habits to a new energy regime.

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