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The 2008 world energy review by Enerdata

Based on its 2008 global energy market data, Enerdata analyses the key drivers impacting the world energy markets.

2008 was a year of extremes: the price of oil grew to a level that was never anticipated (147\$/bbl for the Brent market, on July 11th, 2008) and then plunged to a level never seen before (including 1985/1986); the bankruptcy of Lehman Brothers, led the world into a financial crisis, then to an economic crisis unmatched since 1929.

World energy demand growth twice less rapid than in 2007

Up until the middle of 2008, the high rise in prices logically resulted in a slump in world energy demand growth, even a fall in the OECD countries, mostly in the United States. Then the economic crisis took over this slowdown, despite a brutal fall in prices. In the end, a growth in world energy demand between 2007 and 2008 is half of what it was the year before: 1.4% vs. 2.8%.

The energy demand for the OECD fell by 0.5%, and almost 2% in North America. In the European Union the energy demand stagnates. Chinese demand has fallen to “only” 4% this year (vs. 7% in 2007); in the rest of Asia and Latin America the growth in energy demand has fallen by 1 to 2 points, but remains largely positive. Finally growth continues to accelerate in Africa and the Middle East (7%).

Much less sensitive in developing countries, the slow down in demand mostly affects developed countries.

Decrease in global oil demand in 2008, principally due to transportation in the USA

Where does this inflection in demand principally occur? Particularly in oil demand of the OECD countries, which reported a fall of more than 3% in 2008. Transportation is the major driver, accounting for 60% of oil demand in these countries.

More precisely, it is in North America, where the taxes on motor fuels are low, that the sensitivity to oil prices is very striking: a 6% drop in oil products demand, and a 5% drop in transportation fuels. Japan also faced a sharp decrease in oil demand (-4% in total demand, -5% in transportation). In the European Union, where taxes are much higher on average, the impact is much lower (around 0% overall, -1.2% in transportation).

China seems totally unaffected by the spike in prices, because of domestic prices largely disconnected from international oil prices. The Chinese oil demand has grown slightly faster than last year (+5% in total oil demand, +8% in transportation).

In the rest of the world, the acceleration of oil demand in the Middle East (+8% in 2008 vs. +5% in 2007) and in Africa (+5% in 2008 vs. +3% in 2007) compensates for the decrease in the other developing countries of Latin America (2 point drop in growth for 2008) and Asia.

Strong impact of the crisis on the electricity demand, leading to a decrease in coal demand

For gas, coal and electricity, it was mostly the economic recession in the second half of 2008 which seemed to be the origin of the slump in worldwide demand, with a very significant impact in North America and China.

Electricity demand in North America decreased slightly (-0.6%), led to a drop in coal demand (-1.3%), whereas the demand for gas continued to grow, but at a much slower rate than last year (+1% in 2008 vs. 6% in 2007).

In China, the slowdown in electricity demand is severe (+5.5% versus 14% in 2007) as well as coal demand (+3% versus 8% in 2007).

In the European Union, 2008 is marked by a slight decrease in electricity demand growth (around 0% versus 0.9% in 2007) and, above all, a sharp drop in coal demand (-6%) compensated by a strong recovery in gas demand (+2% versus -1.4% in 2007).

In Japan, electricity demand growth is also down (+1%), resulting in a lower demand for coal (+2.8% versus 4.8% in 2007); more impressive is the drop in gas demand (+3.5% versus 8% the year before).

Except for the Middle East, where it remains very strong (around 8% a year), the growth in electricity demand has markedly slowed down in the other world regions, decreasing by half the former rate on average (+2% worldwide in 2008, vs. nearly 5% in 2007).

The demand for gas has accelerated in the Middle East and Africa (+7% versus 5% in 2007), but has slowed elsewhere: globally, the demand for gas slowed moderately in 2008 (around 3% versus 4% in 2007).

Apart from Africa, which maintains an average rate of +3.5% a year, the demand for coal has slowed down in the rest of the world (Asia outside of China: +4% versus 8% in 2007) and has even been reduced in some regions (Latin America: -4% versus +4.5% in 2007). Globally, the growth of the world coal demand has dropped from 5% in 2007, down to around 2% in 2008.

What shall we remember in 2008 ?

Oil prices, first of all. Like we suggested a year ago, the development of unused production capacities in Saudi Arabia correlated to the spike in oil prices (perceptible since 2007), could only lead to a brutal interruption of the inflationary spiral fueled by the financial markets. Financial speculators, in need for liquidities after the sub-primes crisis, probably accelerated the movement, but the outcome was inescapable. The price of oil has returned over the past few months to a level compatible with the fundamentals of supply and demand equilibrium in the medium-long term, around which it oscillates.

Next, "peak oil". Between geological and geopolitical arguments, some saw during the first half of 2008 the warning signs of "peak oil". Others prefer to see 2008 as the peak of worldwide oil demand, which would be followed by an irremediable fall in demand for the years and decades to come. Two points nevertheless must draw our attention: the impact of price effect in the short term that occurred in the United States was massive, but today we cannot say that it will last, especially weighing in the drop in prices in the last months of 2008; the push in oil demand from developing countries has remained strong, if a little softened by the strong increase in crude prices. The growth in road and air transportation clearly explains this effect. Indeed, transportation is highly correlated to economic development and often supported by governments (automobiles in China, for instance).

These points validate the analysis put out long ago by Enerdata, which stated that the crucial issue in the next two decades in regards to oil is transportation: without a radical change in the current model followed by industrial countries (technology, spatial organization of activities, mobility behaviors), which also seems to be followed by developing countries, the demand for oil will continue to structurally grow faster than supply capacities. Only a sharp increase in prices will regulate the supply/demand equilibrium to a relatively stable level during a long period, but will cause inevitable negative feed-back on the economy. Indeed, the crisis will provide a breath of fresh air, but for how long?