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Fossil fuel companies ignoring threats to demand: think-tank  
London (Platts)--22Oct2015/1043 am EDT/1443 GMT  
  
    \* Industry using optimistic forecasts for GDP, population  
    \* Renewables growth underestimated by IEA  
    \* EVs to impact oil demand in road transport sector  
  
    Future demand for fossil fuels could be lower than industry has assumed,  
according to UK-based financial think-tank Carbon Tracker Initiative.  
    Rapid advances in technology, increasingly cheap renewable energy,  
slower-than-expected economic growth and lower than expected population rise  
could combine to dampen fossil fuel demand significantly by 2040, the group  
said in a report Thursday.  
    The report -- "Lost in transition: How the energy sector is missing  
potential demand destruction" -- challenges nine business as usual assumptions  
made by the big energy companies when calculating that fossil fuel use will  
continue to grow for the next few decades.  
    "Typical industry scenarios see coal, oil and gas use growing 30% to 50%  
and still making up 75% of the energy supply mix in 2040. These scenarios do  
not reflect the huge potential for reducing fossil fuel demand in accordance  
with decarbonization pathways," Carbon Tracker said in the report.  
    "The analysis shows how the industry is assuming very slow incremental  
changes in the energy supply mix going forward. This ignores the potential  
downside risk explored in the research," it said.  
    "Across all factors contributing to energy demand, there is scope for  
reducing future emissions levels and staying within the 2 degrees C  
threshold," it said.  
    "This includes considering different fundamental market conditions  
relating to population rise and GDP growth as well as more obvious advances in  
energy efficiency and clean technology," it said.  
    The report is timely, coming ahead of UN climate talks in Paris starting  
November 30, where almost 200 countries have agreed to strike a climate  
protection agreement with legal force to take effect in 2020.  
    More than 150 countries have already submitted their national emissions  
reduction plans to the UN, covering almost 90% of global greenhouse gas  
emissions.  
    This is significant for the energy markets because material reductions in  
emissions are considered necessary to stay within an internationally agreed  
target to limit global warming to below 2 degrees C above pre-industrial  
levels.  
    The report's key findings are that:  
    - The global population may not rise to 9 billion by 2040 as predicted,  
but a lower 8.3 billion, according to modeling.  
    - GDP growth could be lower than expected. For example, the OECD sees  
global GDP at 3.1% per year to 2040, rather than the 3.4% assumed by the  
International Energy Agency -- the key industry reference point.  
    - The world is increasing its ability to decouple energy demand from  
economic growth. Demand is drastically lower if global energy intensity of GDP  
falls by 2.8% per year in line with the IEA's 450 (parts per million CO2)  
Scenario instead of the 2.2% in its New Policy Scenario.  
    - Industry assumptions about future carbon intensity are inconsistent  
with decarbonization plans set out by 150 countries in their submissions to  
the UN.  
    The think-tank also said the IEA has been "hugely conservative" in the  
past in its assessment of renewable energy growth and that the speed and scale  
of advancements in the competitiveness of renewable energy technologies are  
exceeding expectations.  
    "The cost of energy (battery) storage is falling rapidly and is seven  
years ahead of average forecasts made last year, meaning the technology could  
be cost-competitive with power grids by 2025. The synergy between energy  
storage and renewable energy technologies has the potential to transform  
energy markets, but is not being factored into fossil fuel scenarios," it  
said.  
    Moreover, global coal demand is in structural decline, and China has  
shifted its energy system to such a degree that peak coal demand could occur  
in the very near term, it said.  
    In addition, electric vehicles are likely to penetrate the road transport  
sector more quickly than current assumptions suggest, it said.  
    "Fossil fuel companies expect oil demand to grow between 0.4% and 0.8% a  
year to 2040, much from the road transport sector, oil's biggest market, and  
their scenarios see negligible take-up of EVs by 2040. However, regulations  
requiring greater efficiency from combustion engine cars will hit oil demand  
in the short term," it said.  
   "Longer term, EV's could be cost-competitive with combustion engines by  
2025, according to alternative forecasts, resulting in exponential growth," it  
said.  
    Under all its scenarios, demand for natural gas sees future growth.  
    However, as energy markets change, the levels of gas demand will be lower  
if the fuel loses its baseload role for power generation and switches to  
playing a backup role for renewable energy sources, it said.  
    This is already happening in Germany whereby highly efficient gas-fired  
power units are sitting idle because of cheap coal coupled with  
government-subsidized renewables and an EU carbon price that is too low to  
prompt fuel switching in the power generating sector.  
    Carbon Tracker Initiative's goal is to increase transparency in the  
energy markets by enabling investors to make better-informed decisions linked  
to carbon risk.  
    The group has issued several reports since 2011 aimed at helping to  
identify which investments in the fossil fuel industry are at risk of becoming  
stranded under various price and policy scenarios.  
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