Interview IEA-expert Eduardo Lopez

‘Crisis may lead to structural change’

by Yves de Saint Jacob

The debate is underway over whether the fall in demand for oil-based products in the main consumer countries constitutes a ‘destruction’ of demand or merely a ‘suppression’. IEA-expert Eduardo Lopez believes we are seeing a ‘structural change’.

Will the current fall in demand for oil-based products in the main consumer countries constitute a permant destruction, one which will not recover once the price of a barrel of oil falls – or merely a suppression, a temporary downturn that will see people in OECD countries resume their habitual heavy consumption of petrol and diesel as soon as they can? This is the major question Eduardo Lopez, who studies changes in behaviour for the International Energy Agency, is trying to answer. ‘It is too soon to tell, the figures are very approximate, we are too close to the event,’ Lopez tells EER. Even so, he holds to his theory of ‘durable structural change’.

The shift from gas-guzzling SUVs and light trucks to more efficient vehicles in the US could, according to the IEA, lead to a drop in demand of three million barrels per day (bpd), 4% of world demand, even it takes 20 years to renew the vehicle fleet. Statistics show a fall in the number of vehicle-miles driven for eight months running in 2008, particularly in rural areas. ‘It is the first time in 10 years we see that sort of change,’ Lopez notes. ‘Americans are starting to move closer to the workplace.’

The housing crisis is decisive. ‘This time, there are two factors which combine: the effect of the financial crisis that drives down salaries and threatens jobs, and the price of oil,’ says Lopez. ‘The worst hit American is the man who has lost his house, lost his job or is about to lose it, who lives in the middle of nowhere, drives a huge car and has seen petrol go up from 20 or 30 cents to a dollar a litre in two years.’ At the same time, small businesses, which are the fabric of the American economy, are adapting to dearer petrol. They are managing their stocks differently, attempting to produce locally in order to reduce transport and other costs. These are all structural changes.

But Pierre Terzian, director of Petrostrategies, a research and consultancy group in Paris, points out that change only occurs in the long term. ‘It takes 20 years to completely replace a pool of 150 million vehicles, even at a rhythm of 10 to 15 million a year, and a lot can happen in 20 years,’ he says. ‘If new governments were to introduce, as they have in Europe, incentives to encourage the use of economic cars, or push the development of public transport in the major conurbations, then we would see an acceleration in structural changes. But we aren’t there yet.’

In Europe, the changes are noticeable but mostly on the fringes. ‘There are major demographic differences. Urban density in Europe bears no resemblance to that in the US,’ explains Lopez. ‘People live in a more concentrated fashion, and public transport has existed for a long time. But we can see an increase in the choices introduced by government policy, like the success of the bonuses and penalties scheme in France, favouring small cars to the detriment of middle-sized cars.’ He says it is vital in the coming months to examine the risk of recession in different countries, especially in Britain and Italy. ‘It is when price rises coincide with recession that the demand for oil products could collapse,’ he points out. ‘When people feel that the economy is working, they will accept higher prices as a matter of course.’

For their part, the advocates of ‘suppression’ - the notion of a temporary change - claim that the oil market is by nature cyclical, especially in the long term. Demand dropped by 10% between 1978 and 1980, but 20 years later it recovered to its previous level. ■