Change climate policy now to avert oil market crisis, warns thinktank

Governments risk derailing global fossil fuel demand with 'handbrake turns' in future

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The oil industry is at risk of a global market shock that could halve the value of fossil fuel investments if governments delay setting policies to tackle the climate crisis, according to new analysis.

A report by Carbon Tracker, a financial thinktank, warned that a "handbrake turn" in climate policy could have a "forceful, abrupt, and disorderly" impact on the global oil industry by derailing fossil fuel demand.

The report warned that the longer governments wait to set new regulations to drive climate action the tougher they will need to be to avert the risk of runaway greenhouse gas emissions and dangerous global heating.

The report modelled the impact of a swift government crackdown on fossil fuels from 2025. It predicted that the impact could cause global oil prices to collapse, wiping out billions of dollars worth of fossil fuel investments.

Andrew Grant, a Carbon Tracker analyst and author of the report, said oil companies "risk being left with stranded assets" by assuming that governments will stop short of "forceful action to limit climate change".

The thinktank urged policymakers to act soon to limit new investment in fossil fuel projects which risk being stranded, and warned oil companies to anticipate a step change in climate action.

Under existing forecasts oil demand is expected to grow by 0.6% a year over the next five years, but the report found that a crackdown on greenhouse gas emissions could cause demand to shrink by 2.6% a year between 2025 to 2040.

"The loss of value is driven not by the oil industry throwing money away but simply by investing based on signals sent by the oil price," the report said.

Many oil companies may have been "lulled into a false sense of security by industry scenarios" which continue to forecast steadily rising demand, according to Carbon Tracker.

The thinktank also warned investors against oil market scenarios published by the International Energy Agency which predict a steady decline in demand rather than a sudden collapse.

Oil companies in the US, China and Russia are more exposed to a sudden oil market shock than their European peers due to their slow progress in adopting cleaner energy sources alongside fossil fuels.

Within the world's largest listed oil companies, the so-called "super-majors", ExxonMobil, ConocoPhillips and Chevron are most exposed to an oil price collapse.

Europe's most vulnerable oil company is BP, according to the report, followed by Norway's Equinor, Paris-headquartered Total, Italy's Eni and Anglo-Dutch energy giant Shell.

However, Saudi Arabia could prove to be relatively resilient to an oil price crash because its reserves are by far the cheapest to produce in the world.