Oil demand has increased by 30% over the past 20 years but the IEA's sustainable development scenario (SDS) notes demand will need to fall by the same amount if climate change is to be limited to 2°C.

Potential future oil demand will potentially increase so-called stranded assets across the fossil-fuel sector and other industries it helps to support...

...while alternative energy sources gain traction.
“Looking beyond the immediate Covid-19-related crisis, one area that needs serious consideration by investors looking at the implications of climate change is stranded assets. These are now generally accepted to be fossil-fuel supply and generation resources which, at some point prior to the end of their economic life, become no longer able to earn an economic return, as a result of changes associated with the transition to a low-carbon economy.

The concept of stranded assets is fundamentally linked to technology evolution, and climate change is prompting a series of technological innovations that are creating a potential obsolescence threat to fossil fuels on account of their emissions.

There are many projections about the future growth and decline rate of fossil fuels. However, the world currently remains deeply reliant upon fossil fuels for reliable energy. We treat these long-term projections with caution though, as supply, demand and pricing are driven by many inter-related variables, which become increasingly difficult to predict the longer the time horizon. Additionally, technological disruption can occur quickly.

Renewables are, in some cases already cheaper than fossil fuels and this is driving their faster and broader adoption. As asset replacement cycles occur, replacing old fossil-fuel assets with a combination of renewable technologies is becoming the economically rational choice, which is good news for climate change.

Stranded assets are a useful concept for companies to consider, to help them ensure that they allocate capital in a sensible manner that takes into account long-term demand predictions. The use of the concept is helping to push fossil-fuel companies to become low-cost producers and find the cheapest method of extracting hydrocarbons. This will help ensure that as demand falters over the very long-term, it will be their supply that is bought, rather than the more expensive and harder-to-access and refined energy sources.”

*Lloyd McAllister, responsible investment analyst, Newton Investment Management*
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