China's oil demand to reach 15.5 million b/d in 2040: IEA

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Oil demand from China's transportation sector will peak in 2030, and flatten thereafter, mainly due to falling gasoline demand for passenger vehicles that become more efficient and increasingly electricity-driven, the International Energy Agency said in its latest World Energy Outlook report Tuesday.

The flattening of China's oil demand growth reflects its fundamental change from an industry-driven economy to one based on services and consumption. It also has major implications for Beijing's reliance on oil imports, energy security and the overall energy mix.

"China's energy future will not be a continuation of previous trends," the IEA said, adding that the country's energy choices will have profound implications for global markets, trade and investment flows.

Oil will still remain the backbone of China's transport fuel demand till 2030, growing by 3.3% per year on average, but its share will fall to just above three-quarters, from nearly 90% today, the IEA said. The remaining 25% of transport fuels will be biofuels, natural gas and electricity.

The IEA said that China would become the world's largest oil consumer by the early 2030s, overtaking the US, and touch 15.5 million b/d in 2040. But the slowdown means that India will become the largest source of global oil demand growth from around 2025.

The slowdown in China's oil demand growth post 2030 comes primarily from a decline in gasoline use from passenger cars, offsetting healthy diesel use from freight trucks, kerosene use in aviation and heavy fuel oil use in shipping.

The decline in gasoline demand is in turn driven by three major factors -- plateauing of the passenger car fleet size, greater fuel efficiency and the rise of electric vehicles.

Today's level of car ownership in the US is around 700 cars per 1,000 people, while in China it is just below 120 cars per 1,000 people. This is projected to rise to around 375 cars per 1,000 people in 2040.

In 2016 alone, 24.4 million passenger cars were sold in China, equal to more than 10% of the total car population in the US and a record for annual car sales in a single country, the IEA said.

But this growth was propelled by a favorable tax policy that ended in 2016 and car ownership was already leveling off in some cities like Beijing due to anti-pollution regulations and increasing in the smaller cities.

China has also been trying to cut oil demand growth from road transport by implementing fuel-economy standards for heavy-duty commercial vehicles. These have been in place since mid-2012, making it one of five countries to have such standards, the IEA said. The other countries are Canada, India, Japan and the US.

Additionally road freight transport is expected to be 30% more efficient in 2040, the Paris-based energy watchdog said.

China is already the largest market for electric vehicles with around 40% of global sales in 2016. Electric vehicles are projected to account for almost one-fifth of China's new car sales in 2025, and roughly 25% of the fleet in 2040, the IEA said.

"The timing of the projected peak of passenger car fuel demand growth is one of the greatest uncertainties in the transport outlook for China, although the question appears to be increasingly 'when' and not 'if', at least for as long as there is no reversal of current policies," the IEA added.