

## **Moves Toward Gasoline/Diesel Vehicle Ban in Europe and Its Impact**

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On July 26, British Environment Secretary Michael Gove announced that a ban would be imposed on sales of new gasoline and diesel vehicles from 2040. As air pollution has been estimated to have seriously affected 40,000 people in Britain annually, measures against air pollution have been viewed as urgent. The ban on gasoline and diesel vehicles might have been announced as a fundamental anti-pollution policy to switch from gasoline and diesel vehicles to electric, hybrid and other clean vehicles emitting no or less pollutants.

The switch from gasoline and diesel vehicles is expected to contribute not only to easing air pollution but also to reducing carbon dioxide emissions and play a key role in Britain's global warming and climate change policy. As Britain and other participants in the Paris Climate Agreement are set to voluntarily reduce greenhouse gas emissions and enhance the reduction in the future under the Agreement that has taken effect, the British measure to ban gasoline/diesel vehicles is expected to hold a key position.

In fact, a similar policy was announced in France on July 6 prior to the British announcement. French Ecology Minister Nicolas Hulot then said France will ban sales of gasoline and diesel vehicles by 2040 to reduce CO<sub>2</sub> emissions. The announcement came just before a Group of 20 Summit in Germany, indicating that France would like to take leadership in climate change measures as the host of the 21st Conference of Parties to the United Nations Framework Agreement on Climate Change that achieved the Paris Agreement.

Britain and France, ranked just after Germany as the largest European vehicle country, have thus come up with the gasoline and diesel vehicle sales ban starting in 2040. In addition to Britain and France, the Netherlands and Norway are moving to ban gasoline and diesel vehicles. Even in Germany, the federal legislature adopted a non-binding resolution calling for a similar ban in October 2016. Apart from the national level, Swedish vehicle manufacturer Volvo as a symbolic move, has offered to sell only electric vehicles from 2019. Other automakers have also offered strategies to switch to electric and other clean vehicles.

The situation is complicated in Germany that has a giant auto industry. On August 2,

German automakers including Volkswagen and Daimler announced to recall a total of 5.3 million diesel vehicles to enhance reduction of emissions. The improvement of diesel vehicles' environmental performance is apparently designed to discourage arguments for the severest measure of banning sales of that type of vehicles.

The dramatic auto policy change represents a grave situation for the auto industry in which automakers' growth and prosperity are at stake. Given that the auto industry has a broad industrial base, the auto policy change may have great implications for national economic growth and employment. At the same time, however, the policy change could exert a very great impact on the global oil industry and market.

Since last year, a peak oil demand theory has attracted much attention in the oil industry. Behind the theory have been remarkable improvements in electric vehicles' performance and their diffusion stimulated by cost reduction. Until recently, however, a mainstream view was that oil demand would not peak before 2040 because gasoline and diesel vehicles would still be competitive with their demand remaining strong, even though with auto fuel demand growth plunging on the diffusion of electric and other clean vehicles, and demand for ship and aircraft fuel and petrochemical materials would expand.

However, such mainstream view might have failed to assume a gasoline and diesel vehicle sales ban in such major countries as Britain and France. The ban is a new key factor for analyzing global oil demand and the international oil market. As a matter of course, it is uncertain how such auto sales ban would be implemented and become more feasible. Future attention should be paid to whether the policy would spread further and be enhanced in the world. In addition, a key point is that the policy's impact, if any, will emerge not immediately but over a long term.

Nevertheless, the policy's potential impact on demand for vehicle fuel as a dominant component of overall oil demand may have great repercussions. It may be a new factor that the global oil industry and oil producing countries cannot ignore. In the global oil market and industry over several recent years, the shale revolution on the supply side has attracted much attention as a game changer. So far, we have analyzed oil supply problems and the oil market under the paradigm that oil demand would continue to grow over a long term. If the paradigm changes, however, it may have a very great impact.

In thinking about the long-term future of oil that has the largest share of the global energy mix and is the most important commodity for international trade, we must pay much attention to auto policy and strategy changes as an emerging uncertain factor and to its impact.

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