China's green leap forward is a nightmare for Saudi Arabia and Russia
Ambrose Evans-Pritchard - The Telegraph

Saudi Arabia Crown Prince Mohammed bin Salman © ALEXEY NIKOLSKY/SPUTNIK/KREMLIN/POOL/EPA-EFE/REX

The existential threat to Saudi Arabia and the OPEC cartel comes from China, not from net zero or from green deals in the West.

Chinese sales of petrol and diesel cars fell 20pc in absolute volume terms in February from a year earlier. Sales of plug-in electric vehicles kept rising explosively and reached a record 32pc of the market for standard passenger cars.

At the current pace, EV sales in China will hit eight million this year, helped by the proliferation of battery-swapping stations. Rather than charging your own car, you do an instant swap. No need to wait. No need for charge-points everywhere.

Sales have surged despite the elimination of subsidies at the end of last year. China's best-selling EV is the BYD Song Plus, which retails for about £22,000. Number two is the smaller Wuling Mini. It starts at around £4,000 (not a misprint).

"They are producing cheap EVs for the mass market, which is still completely lacking in the West. It is absolutely taking off," said Lord Adair Turner, chairman of the global Energy Transitions Commission (ETC).

The consensus forecast until recently was that EV penetration would reach 40pc of Chinese sales by 2030. That threshold could be crossed as soon as this year if manufacturers can produce fast enough to meet the demand. "We think EVs will reach 80pc of sales in China by 2030," said Kingsmill Bond from energy strategists RMI.

Electrification is spreading to light commercial vehicles, up 85pc year-on-year. Over 60pc of buses in service in Chinese cities are already low-carbon. All *municipal buses on the eastern seaboard will be electrified by 2025. Long-haul trucks are next in line.*

Bloomberg New Energy Finance estimates that EVs worldwide have already displaced 1.5m barrels a day (b/d) of oil use, or 1.5pc of global demand. This is about to accelerate exponentially.

"China's demand for oil is suddenly going to start falling. Half of China's total car fleet could be electric by 2030. If you add up the numbers, that could subtract several million barrels of oil a day," said Lord Turner.
"China's high speed rail network means that there won't be so much internal aviation either. Oil use per capita is never going to be anything close to American levels," he said.

OPEC maintains the fiction that oil demand will keep booming until the middle of the century, but this is based on the obsolete premise that Asia's rising middle class will more than compensate for declining imports in Europe and America.
"Whatever they say in public, the Saudis know the game is up. They can see that the world's largest car market for petrol cars is going to collapse," said RMI's Mr Bond.

For the last 40 years the Saudis have acted (mostly) as 'Federal Reserve' of the global oil market, working closely with the US and Europe to maintain stability. They would restrain OPEC hotheads from pushing prices too high at critical moments, knowing that this would backfire by accelerating the switch to rival technologies.

It has abandoned this role as market regulator under Crown Prince Mohammed bin Salman. The strategy today is to extract as much money as possible from crude reserves before the window shuts forever, deliberately forcing prices higher (by cartel practices) to exploit captive demand for legacy transport.

Last weekend's Saudi-led decision by OPEC and Russia to cut global supply by a further 1.1m b/d is an act of weakness. It is not the action of states seeking to preserve a sustainable business model.

It was an affront to President Joe Biden but it was no favour for Xi Jinping either. Oil shocks are horrible for China. Its energy intensity per unit of GDP is two and a half times higher than in the US.

America is largely self-sufficient in crude: China is the world's largest importer by far at 10.8m b/d. Its oil-import dependency has risen to 70pc, a greater level of vulnerability than the US at the worst point of the Arab oil embargo in 1973.

This oil is mostly shipped in tankers through the Straits of Molucca. China is also the world's biggest importer of liquefied natural gas, which also comes on ships. This is a glaring geostrategic weakness as the superpower clash with the US turns increasingly dangerous.

Chinese strategists can see how the West is using its stranglehold over global tanker fleets, vessel insurance, and shipping finance to asphyxiate Russia. They have also *studied Franklin Roosevelt's blockade of Japanese oil imports in 1941. They know that China cannot risk a showdown over Taiwan until it has a safer supply of energy.*

Hence the massive expansion of renewable power currently underway. Great tracts of desert in Inner Mongolia, Gansu, and Xinjiang are being covered with solar panels and onshore turbines, bundled with extra coal capacity as a back-up to avoid winter blackouts.

Xi Jinping's original plan was to reach 1,200 gigawatts (GW) of wind and solar by 2030. China's Research Academy of Environmental Sciences says this target will be achieved five years early, given that the roll out is running at 180 GW a year. This compares to total installed capacity of 33 GW in France, 42 GW in the UK, and 240 GW in the US since the start of the green era.

Nikhil Bhandari and Amber Cai from Goldman Sachs think China will smash the target three times over, reaching a staggering 3,300 GW by the end of this decade, all backed by a vast expansion of energy storage. They estimate that the county could halve its total energy imports by the early 2040s.

This would require $2.2 trillion of investments but that should not be understood as a cost. Goldman says combined renewable with storage operating around the clock will be highly profitable by 2030 as they undercut coal, with a rate of return on capital reaching 10pc.

They think China's total CO2 emissions will peak as soon as 2028. China is not doing this as a favour to the West. It is doing so in order to confront the West from a position of greater strength in the future, and because it aims to become the world's clean-tech hegemon.

The Chinese have already cornered 90pc of global production of solar panels, and control 70pc of the lithium output – although that may matter less as sodium-ion batteries arrive.

One can be too cynical about China's motives. Xi Jinping was an environmental crusader 20 years ago as Zhejiang party chief. He was a pioneer of the radical 'Green GDP' campaign in 2004, which called on local governments to subtract ecological damage from the raw GDP figures. He knows that China is more immediately vulnerable to climate change than the US or Europe.

Chinese scientists say the Himalayan glaciers – the Third Pole – are melting even faster than previously thought. They will shrink by two-thirds over the course of this century under current warming trends, exposing China's ancient river systems to the annual devastation of spring floods followed by summer droughts. So yes, China has to act.

China's green leap forward is a nightmare for Big Oil. It is compelling America and Europe to respond in kind, causing a step-change in the arms race for clean-tech ascendancy.

The EU's retreat from its 2035 ban on combustion engines makes no difference in this larger Geo-economic context. The permitted e-fuels, made from green hydrogen, are too wasteful and expensive to have any commercial relevance. They retain just 16pc of the original energy input compared to 77pc for EVs.

The next generation of solid state batteries and lithium-air variants will complete the annihilation in the late 2020s, opening the way to EVs with much longer driving ranges, much lower costs, and less reliance on scarce minerals.

Technology married to market forces will render fossil-fuel bans in the EU, the UK, Japan, California, or Quebec superfluous before they come into force.

Personally, I had assumed that oil would enjoy one last hurrah in the early 2020s as a decade of under-investment drives prices to $150 or $200. But this does not seem so inevitable any more. The rallies keep fading.

The events of the last week suggest that the process of oil displacement is more advanced than we had assumed. Saudi Arabia, Russia, and the petrostates have already entered the first stage of terminal run-off.