

Press release

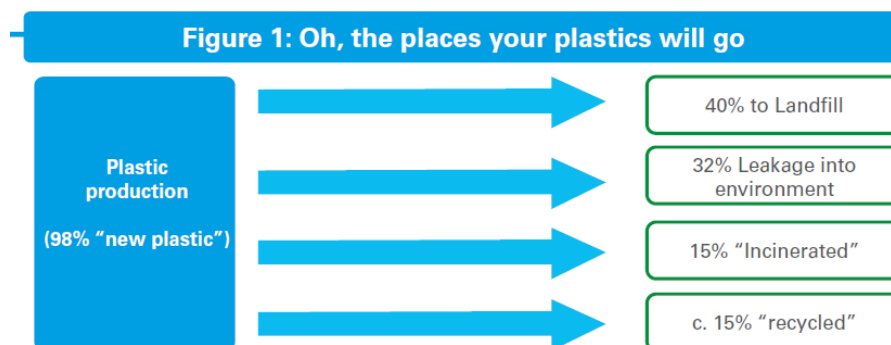
18 July 2018

The growing global backlash against plastic pollution could bring peak oil demand forward several years, says LGIM

The emerging global backlash against plastic pollution will have major implications for both the petrochemical and oil industries. This could bring forward the point of peak oil demand several years*, which would have important implications for investors, says Legal & General Investment Management (LGIM) at its latest Horizons briefing.

Demand for plastic has grown twenty fold in the past half-century, and some expect it to double again in the next 20 years. Lightweight, cheap and durable, plastic in many ways has been the perfect product and the cost benefits of plastics compared with other alternatives are significant. However, the durability and chemical make-up of plastics is having a major impact on the environment, and is killing untold numbers of sea creatures, fish and birds.

Presenting at today's Horizons event, **Nick Stansbury, a fund manager on the Global equity team at LGIM**, explained the scale of the problem: "Almost every government globally has committed to reducing plastic usage. The challenge is of the millions of tonnes of plastics produced, only a fraction is recycled. As a consequence nearly a third of all plastic packaging finds its way into the environment. It is likely that at least eight million tonnes of plastic enter the ocean each year. In just 30 years, if current trends continue, there will be the same number of tonnes of plastic in the ocean as there is fish."



Plastic packaging destinations (Source: New Plastics Economy)

The cost of clean-up

The cost of tackling that amount of plastic will be enormous. Recent estimates put the cost of cleaning up plastic pollution in the oceans at a minimum of \$13 billion**.

"New measures and regulations are being introduced to try to limit single-use plastics, and to encourage recycling. Governments are reticent to commit such large amounts of capital on an ongoing basis and so have opted to tackle the problem at its root: reduce consumption and production," said Stansbury.

Given the pressing need to limit carbon emissions as well as plastic usage, incineration is unlikely to be the answer. Governments essentially have three options: more reuse of plastic, increase the amount of recycling and thirdly, seek more frequent use of other materials instead of plastic. All of these will ultimately depress the demand for plastics in the long-term.

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What does all this mean for investors?

“Against this backdrop, with the changes in both consumer behaviour and regulation, it is unrealistic for investors to assume the long-term demand for plastics will continue to grow at its historic rate.” continued Stansbury.

In the long-term, LGIM expects an increase in both reuse and recycling of plastics which will dampen demand growth for for petrochemicals. Investors should seriously consider the impact of a reduction in plastics demand when examining long term demand growth forecasts for oil. These are often heavily dependent on the assumption that this demand growth continues unchecked.

According to LGIM’s calculations* if a global recycling rate of single-use plastics of 50% was achieved in 2025 the equivalent of 2.5mn barrels of daily demand would be at risk. Our analysis suggests this would lead to oil demand peaking much sooner than some forecasters estimate, potentially by as much as five years.

In addition, the \$2 trillion petrochemical industry – of which many oil companies are also a part - is currently engaged in a large capital spending program to build new chemicals plants all over the world. If consumer demand for plastics grows more slowly than expected, the industry would suffer from global overcapacity, which could significantly affect profitability.

Stansbury concluded: “Investors need to recognise the risk that long term oil demand growth cannot be relied upon as plastic and therefore oil consumption is dramatically reduced. We cannot pinpoint when peak oil demand will arrive, but we are sure it will happen. This research has increased our conviction that peak demand is coming sooner than many believe. The destabilising effect on oil markets will be profound and we believe that investors, and oil companies, need to start taking those risks more seriously.”

-Ends-

Notes to editors

Horizons is LGIM's series of quarterly insights that explore the long term major structural changes in demographics, technology and energy to which its clients' capital is exposed.

* Calculations by LGIM's energy team, indicate that that if recycling, thrifting and reuse were to reach 50% (just for single use plastics), using the Switzerland's recycling levels as a benchmark, then by 2025 this would destroy 2.5 mb barrels per day of demand growth. Similarly, incorporating a more gradual increase in recycling rates globally to the same level into the published assumptions of a major energy forecaster, leads to oil demand peaking around five years earlier, with a steeper decline than forecast thereafter. Importantly these assumptions leave recycling rates for multiple-use plastics unchanged. **Both of these calculations are illustrative scenarios rather than forecasts.**

**According to Trucost estimates

Compliance code: M1759

Legal & General Investment Management:

Legal & General Investment Management is one of Europe's largest asset managers and a major global investor, with total assets of £983.3 billion*. We work with a wide range of global clients, including pension schemes, sovereign wealth funds, fund distributors and retail investors.

Throughout the past 40 years we have built our business through understanding what matters most to our clients and transforming this insight into valuable, accessible investment products and solutions. We provide investment expertise across the full spectrum of asset classes including fixed income, equities, commercial property and cash. Our capabilities range from index-tracking and active strategies to liquidity management and liability-based risk management solutions.

*LGIM internal data as at 31 December 2017. These figures include assets managed by LGIMA, an SEC Registered Investment Advisor. Data includes derivative positions.

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