

Our View

The Magnificent ~~Seven~~ Six: Tesla's Demise

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Tesla shares have declined by more than twenty-six percent in the first weeks of 2024. As January ends, the company's price-earnings ratio (stock multiple) has declined to 42.5. The share price could drop more if investors decide that Tesla is an auto manufacturer rather than a tech stock because Ford's P/E ratio is eight and GM's is six.

Should investors finally realize that Tesla is an automaker facing many of the same problems as GM and Ford, its shares would lose between ninety and ninety percent of their value from January 1. While such a calamitous decline is unlikely, the current share price drop indicates that the energy transition faces serious obstacles.

It has not alarmed, though, those pushing for a total shunning of fossil fuels. They continue to produce reports that ignore the global political trends, the worsening situations for firms like Tesla, and the significant long-standing impediments in many nations that will slow or stop progress. In doggedly advocating their idealistic solutions, these groups repeat mistakes made by similar organizations in the past.

For example, the failure of the idealists in Jimmy Carter's administration should wake up those who think the global energy transition will come easily or quickly. President Carter's first Secretary of Treasury, W. Michael Blumenthal, offered a caution to Congress in 1979 that today's idealists should heed:

To improve our lot, we must see the world without illusions, as it really is, like it or not—and however uncomfortable that may be for timid politicians and mindless poll watchers.¹

The quote would describe today's circumstances well if one substituted "idealistic environmentalists" for timid politicians and "policymakers" for poll watchers. Around the same time as Blumenthal's statement, the Carter Whitehouse was dismissing Ronald Reagan's presidential campaign. Again and again, one heard, "Americans will not vote for a movie actor." The prevalent argument was that citizens would recognize the importance of Carter's tax reform, energy, and foreign policies—especially the Camp David agreements offering self-government to Gaza²—and not vote to change leaders.

In November 1980, Ronald Reagan defeated Jimmy Carter by almost ten percentage points, receiving 489 electoral votes to Carter's 49. The latter's idealistic programs died.

Those pushing for rapid change today are repeating the Carter mistakes. The evidence of their blindness to threats to the transition is apparent in a new study by the British research organization Carbon Tracker (CT). Its report begins this way:

It is increasingly clear that the energy transition is well underway. Driven by innovation in clean technologies and accelerated by policy action on climate, energy security, and energy affordability, the global energy system is shifting away from fossil fuels. Projections for oil and gas consumption present a bleak prospect for the sector, regardless of what the industry may suggest: the International Energy Agency (IEA) now foresees global demand for oil, gas, and coal all peaking by the end of this decade.³

¹ Philip Verleger, *Oil Markets in Turmoil* (Cambridge, Mass.: Ballinger, 1982) [<http://tinyurl.com/33z8z7xm>], p. 155.

² "Camp David," *Britannica*, updated January 15, 2024 [<http://tinyurl.com/yd3656zf>].

³ Maeve O'Connor, "Private Eyes Wide Shut: Private Equity Investments in Oil and Gas at Risk from Energy Transition," *Carbon Tracker*, January 25, 2024 [<http://tinyurl.com/bp6zmbzx>].

The report's authors expect readers to accept the IEA forecasts as correct when, in fact, the errors in the agency's past projections have equaled those of others, particularly the major oil companies, the US Energy Information Administration, and OPEC. Critically, the CT authors ignore OPEC's projection that demand will not peak by 2030.

The transition optimists also disregard key relationships that do not support their conclusions. For example, the US Department of Commerce released data on US GDP on January 25. The data include information on real gasoline consumption (gallons or barrels converted to real dollars). As the figure here shows, no discernible change appears in the relationship between economic activity and gasoline use in the US.

The graph compares, by quarter, the year-over-year change in constant dollar expenditures on gasoline to the change in constant dollar GDP. From 2008 to 2023, the average year-over-year change in GDP was 1.8 percent. (Note that this calculation excludes 2020 and 2021 due to the Covid disruption.) The year-over-year rise in gasoline use was 0.2 percent from 2008 to 2019 and 0.3 percent from 2022 to 2023. In other words, no sign of any shift in the relationship is evident.

As Secretary Blumenthal said, "We must see the world without illusions, as it really is, like it or not—and however uncomfortable that may be."

The Carbon Tracker authors prefer illusion. Still wearing their rose-colored glasses, they concluded that "one in six passenger vehicles are estimated to be electric by 2030, eroding one of oil's key sources of demand."

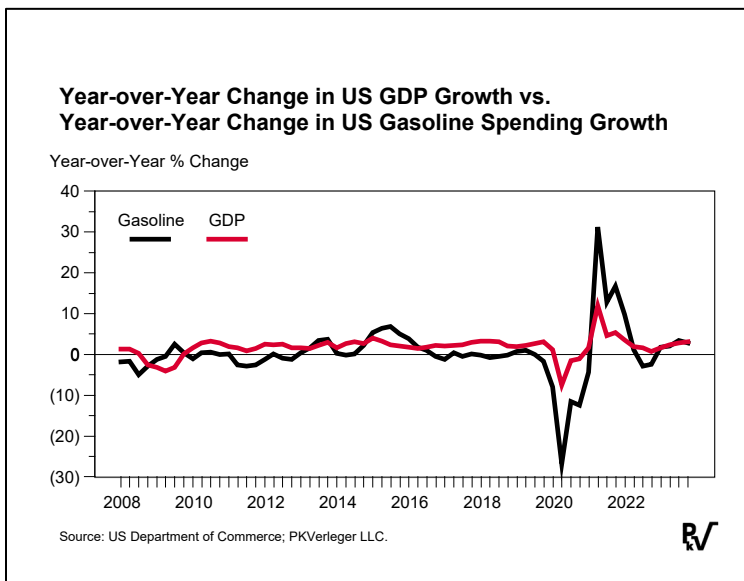
The Carbon Tracker report is not unique. One reads repeatedly today of fossil fuels' inevitable decline. Yet, on January 27, just days after Carbon Tracker issued its report, Reuters published this item:

French farmers maintained nationwide protests on Saturday and kept their threat of roadblocks around Paris, arguing government measures to quell the demonstrations did not go far enough to meet their demands for better pay and living conditions.

On Friday, Prime Minister Gabriel Attal's **government dropped plans to gradually reduce state subsidies on agricultural diesel**, and announced other steps aimed at reducing the financial and administrative pressures faced by many farmers [emphasis added].⁴

The French protests followed protests in Germany:

Hundreds of German farmers and their tractors gathered in central Berlin on Monday to protest against the government's plans to cut diesel subsidies and tax breaks for agricultural vehicles next year as part of Berlin's 2024 austerity measures.



⁴ "French farmers keep Paris roadblock threat as protests endure," Reuters, January 27, 2024 [<http://tinyurl.com/mny66rv7>].

The Reuters article added,

The cuts also aim to help reduce greenhouse emissions in the country's agriculture sector that was responsible for 55.5 million metric tonnes of greenhouse emissions last year, roughly 7.4% of the country's total.

Environmental groups said farmers could bear the financial burden of the canceled subsidies, citing profits made from rising food prices and other agricultural subsidies that are still in place.

"With all understanding for the farmers—making agricultural diesel cheaper by the state is expensive, harmful to the climate and should be abolished," Greenpeace agricultural expert Martin Hofstetter said in a statement on Monday.⁵

The French and German protests and protests in The Netherlands remind one of similar demonstrations during the Carter administration. *The New York Times* reported the following in December 1977: "Two columns of tractors and trucks rolled into the nation's capital from Maryland and Virginia today to demonstrate their drivers' anger over farm conditions that they say are pushing them into bankruptcy."⁶ Truckers conducted another protest in 1979 in which several drivers were killed.⁷

In Europe, the impact of these sentiments is already being felt. In November in Holland, conservative Geert Wilder's Freedom Party won the majority of votes. The *New Atlanticist* headline read, "The shocking Dutch election is done. The political maneuvering is just beginning."⁸ The winning party was described as "euro-skeptic" and wanting "to undo the green transition."

Writing in *Politico*, Zia Weise also noted the following:

The far-right party that surged to victory in Wednesday's Dutch election wants to ditch all efforts to stop climate change.

About a quarter of Dutch voters backed Geert Wilders' Freedom Party (PVV), whose platform includes exiting the Paris climate accord, dismantling domestic green legislation, and scrapping measures to reduce planet-warming emissions.⁹

The situation in The Netherlands, France, and Germany is not unique. Opposition to proposals that would boost energy costs for consumers is strong. The politicians defending these plans look increasingly like today's version of President Carter's supporters. The Tesla share collapse reflects the new skepticism.

Those who follow the issues associated with global energy know that strong measures are needed to avert a climate catastrophe. The Carbon Tracker studies, among others, emphasize this need.

However, the lessons from the Carter administration's failures, the election outcome in The Netherlands, and the protests in Germany and France all warn that the public may block any significant progress toward a net-zero world at the ballot box.

In 1969, when Vice President Spiro Agnew spoke out against students protesting the Vietnam War, he offered the following comment, which those who believe the energy transition is ongoing and irreversible should heed:

⁵ Riham Alkousaa and Swantje Stein, "German Farmers protest with tractors against austerity measures," *Reuters*, December 18, 2023 [<http://tinyurl.com/r76kmbh5>].

⁶ William Robbins, "Tractors Carry Farmer Protests to Washington and 30 Capitals," *The New York Times*, December 11, 1977 [<http://tinyurl.com/3jayke7j>].

⁷ Larry Kramer, "Truckers' Strike Intensifies in Violence and Disruptions," *The Washington Post*, June 22, 1979 [<http://tinyurl.com/4bpv3bt6>].

⁸ Lisa Homel, "The shocking Dutch election is done. The political maneuvering is just beginning," *New Atlanticist*, December 4, 2023 [<http://tinyurl.com/2kzktkmv>].

⁹ Zia Weise, "Why the Dutch election spells trouble for Europe's climate efforts," *Politico*, November 23, 2023 [<http://tinyurl.com/uz8r65rz>].

Education is being redefined at the demand of the uneducated to suit the ideas of the uneducated. The student now goes to college to proclaim, rather than to learn. The lessons of the past are ignored and obliterated, and a contemporary antagonism known as “The Generation Gap.”

A spirit of national masochism prevails, encouraged by an effete core of impudent snobs who characterize themselves as intellectuals [emphasis added].¹⁰

Those who want to rapidly decarbonize the global economy may be today’s “effete core of impudent snobs.” The Tesla share price decline should be their wake-up call.

Oil producers, refiners, and marketers should welcome these developments. **The peak of oil consumption is not yet in sight.**

¹⁰ “Who wrote Spiro Agnew’s ‘The Generation Gap’ speech from 1969?” Reddit, [<http://tinyurl.com/33kzekhu>].