

EXECUTIVE INSIGHTS

Mashreq Energy Industry Roundtable

Q2 2024

Energy Transition vs Energy Security

How to accelerate Energy Transition while ensuring strong Energy Security amid rising global demand and environmental concerns in 2024?



Executive Summary

The global imperative to mitigate greenhouse gas emissions and limit global warming to below the 1.5°C threshold set by the Paris Agreement requires a significant increase in renewable energy adoption and the development of low-carbon technologies. However, this transition must occur while ensuring a steady and uninterrupted energy supply to meet the growing global demand, with the population projected to reach 9.7 billion people by 2050.

Both renewables and hydrocarbons will play crucial roles in powering the future and supporting global development. OPEC anticipates a 23% increase in oil demand by 2045, necessitating substantial upstream investments. Meanwhile, commitments made at COP28 aim to triple global renewable energy capacity by 2030, requiring substantial climate finance. Balancing these two objectives – Energy Transition and Energy Security – poses a significant challenge amidst factors like rising interest rates, inflation, and geopolitical events impacting the economy. Collaboration among stakeholders is essential to address this challenge and unlock opportunities for the energy industry to maintain a stable power supply while advancing the goals of emissions reduction and transition to cleaner energy sources.

There's a need for governments to strike a balance between utilizing oil and fulfilling environmental responsibilities outlined in international conventions. Achieving this equilibrium requires policies and strategies that prioritize both curbing emissions and meeting escalating energy demands. This entails ramping up renewable energy adoption, advancing low-carbon technologies, and ensuring consistent power supply amidst population growth. Effective collaboration among stakeholders is crucial for navigating these challenges and seizing the opportunities presented by the Energy Transition.

IT'S ALL ABOUT BALANCE

Over the past year, there has been a notable shift in the focus of energy discussions, particularly concerning the balance between energy transition, security, and affordability. Previously, conversations primarily centred on transitioning to renewable energy sources, with little attention paid to security and affordability concerns. However, this change in narrative underscores the importance of adopting a balanced approach, taking into account factors such as technology, geopolitics, economics, and commercial viability. These discussions are crucial for gaining a comprehensive understanding of the optimal balance that should be pursued in energy policy and strategy. The energy trilemma, which involves balancing energy security, equity, and environmental sustainability, has long been recognized as a complex challenge. Policy making and specific regional constraints and bottlenecks need to be addressed as not one size solution fits all. Some regions have well-defined strategies for transitioning to green energy while others struggle with implementation hurdles.



Clean Tech

\$80bn

Investment in solar PV manufacturing in 2023 (up 100% vs. 2022)

\$110bn

Investment in battery manufacturing in 2023

\$200bn

Clean technology manufacturing investment in 2023 (up 70% vs. 2022)

82%

portion of private capital allocated to electrification and associated deployment of renewable power Aug 2022-Aug 2023

Sources: IEA <https://www.zawya.com/en/wealth/sustainability/clean-tech-manufacturing-investments-soar-to-200bn-in-2023-ia-qwyju3jm> and S&P Global <https://www.spglobal.com/commodityinsights/en/market-insights/blogs/energy-transition/010824-financing-the-energy-transition#article2>

KEEP IT REAL

The world is at a critical juncture where reality is now intersecting with aspirations and targets set. The invasion of Ukraine in 2022 and subsequent energy price spikes have served as stark reminders of the critical importance of energy security, often taking precedence over sustainability in the short term. Despite the escalating urgency of the climate crisis, recent floods, record heatwaves, and rising ocean temperatures have prompted a re-evaluation of our approach to climate action. There is a growing recognition that previous, often ideological methods must give way to more

pragmatic strategies, especially evident in Europe and parts of the US, as well as within international businesses and banks. For example, in the US, while electricity demand has remained relatively stable, unexpected surges from sectors like data centres have underscored the challenge of meeting energy needs in a climate-conscious manner. This highlights the need for pragmatic solutions that integrate fossil fuels with cleaner technologies like carbon capture, storage, and hydrogen. However, implementing such solutions is complex both from a business and regulatory perspective, requiring robust frameworks to incentivize adoption.

COLLABORATION IS KEY

To achieve global energy goals, significant investments in renewable energy capacity, energy efficiency improvements, and methane emissions reduction are essential. The path to success in the energy transition is intricate and requires comprehensive planning, clear regulation, and collaboration across sectors and stakeholders, particularly in emerging economies, which also require projects that are financially viable. Challenges to progress include pushback from the hydrocarbon industry and the need for skilled leadership and workforce competency. Recent discussions have highlighted the retreat of major European energy companies like Shell and BP from their energy transition commitments, raising questions about the global narrative surrounding energy security versus transition. European energy companies are grappling with balancing their legacy gas businesses with ventures into renewables. While renewables offer growth opportunities, they also present

complexities such as project delays and technical issues. European companies may find competitive advantages in areas like carbon capture, hydrogen, and synthetic aviation fuels, while US counterparts remain focused on their identity as gas companies.

HUMAN OVERSIGHT

Investing in energy efficiency and demand-side management yields positive returns and significant emissions reductions. Practices like recycling, circular economy principles, and AI-driven efficiency measures across industries such as steel and cement are crucial. Implementing measures like district cooling and heating and energy efficiency labels for properties can drive behavioural change. Optimizing the energy system through technology, such as vehicle-to-grid solutions, flattens demand peaks and improves grid stability, but this requires alignment with regulatory incentives to encourage participation from industries and consumers in advancing local energy improvements.



“The finance industry sees how the narrative around the Energy Transition has changed. Twelve months ago, everybody was mainly focusing on how this agenda could be pushed forward, and there was very little room to discuss the other side of the equation – energy security and energy affordability. That has obviously changed in the past few months.”

Feras Al Jaramani
Division Head - Public, Energy & Commodities Sector
Mashreq

Energy Transition Finance

75%

global investment
2023 channeled
through debt
markets

25%

global investment
2023 channeled
through public and
private equity

\$496bn

private capital
invested Year 1
of US Inflation
Reduction Act

\$1.1trn

Energy Transition
investment in
2022, at parity
with hydrocarbons
investment

\$4.56trn

required volume of
annual investment
by 2030 to hit zero
by 2050

Sources: S&P Global <https://www.spglobal.com/commodityinsights/en/market-insights/blogs/energy-transition/010824-financing-the-energy-transition#article2>;
PwC <https://www.pwc.com/gx/en/issues/esg/the-energy-transition/bridging-gaps-to-reach-energy-transition-goals.html>
and IEA <https://www.iea.org/data-and-statistics/charts/historical-investment-in-energy-benchmarked-against-needs-in-iea-scenarios-in-2030>



“The energy trilemma is not new. Looking ahead, it’s now important to see where policy making has arrived, and what bottlenecks stakeholders from both the hydrocarbons and renewables sector are facing. The constraints and solutions will be unique to each region.”

Badar Chaudhry
Head of Energy Sector
Mashreq

GOOD FOR BUSINESS

Contrary to common assumptions, the transition to sustainable energy sources can offer very attractive returns on investment, particularly amid rising energy demand and interest rates. Energy transition and security

can complement each other. Diversification of technologies strengthens resilience against shocks, with renewables being cost-competitive with traditional sources. China and India’s investments in renewables showcase financial prudence alongside environmental concerns, adding value to the global economy through technological advancements and economies of scale, making renewable energy deployment one of the fastest-growing sectors globally.

EQUITABLE ACCESS

Ensuring commercial viability is crucial for renewable energy projects in underdeveloped and emerging countries, facing higher setup costs. Financial institutions must develop products facilitating cheaper access to capital to enhance scalability. Addressing the economic gap, especially in capital access, requires adjustments in exchange rates and supply chain management.

Green Hydrogen & CCS

75-80%

surveyed commercial banks expect Green Hydrogen and CCS tech to total above 10% of energy-related investment portfolios by 2030.

Source: BCG <https://www.bcg.com/publications/2023/breaking-the-barriers-in-financing-hydrogen-and-carbon-capture>

\$10trn

in hydrogen projects and \$3trn in CCUS projects required to achieve net-zero emissions by 2050.

Source: IEA and BCG <https://www.bcg.com/publications/2023/breaking-the-barriers-in-financing-hydrogen-and-carbon-capture>

\$1.65bn

loans for green hydrogen approved by the World Bank in 2023.

Source: World Bank <https://live.worldbank.org/en/event/2023/cop28-ifc-scaling-global-clean-hydrogen-financing>

\$100bn/year

investment in emerging economies green hydrogen through 2030 to hit net zero by 2050.

Source: OECD https://read.oecd-ilibrary.org/environment/scaling-hydrogen-financing-for-development_0287b22e-en#page3

\$6.4bn

global carbon capture investments 2022.

Source: BloombergNEF <https://about.bnef.com/blog/carbon-capture-investment-hits-record-high-of-6-4-billion/>



ABOUT: mashreq المشرق

Mashreq was founded in Dubai, 1967, and can be traced to humble origins as the oldest bank in the UAE. Today, Mashreq celebrates over five decades of excellence, and has emerged as one of the leading financial institutions in the United Arab Emirates (UAE), with strong presence through its international offices spanning Europe, Asia, Africa and the US, as well as financial capitals of the world. The creativity and unsurpassed reputation of the bank to provide innovative solutions has garnered the bank with several awards over the years. Just as the UAE has enjoyed strong and consistent growth in recent decades, Mashreq has continued to expand the range of services it offers to its valued customers. Mashreq has become an integral part of the financial landscape for businesses and individuals across the country.

Source: <https://www.mashreqbank.com/en/uae/about-us/our-company/history/>

