

# EXECUTIVE INSIGHTS

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**A NEW ERA:  
How energy companies can support  
the UAE's journey to Net Zero**



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**Challenging conversations are circling in the energy-finance-climate nexus on how best to balance the worst energy crisis since the 1970s; juggling short-term energy needs with long-term climate goals while protecting societies and shareholders against a backdrop of geopolitical strife. Amidst roundtable delegates' many in-depth conversations, one point remained consistent: financial fluidity is critical to injecting greater balance into the energy industry's most complex chapter ever.**

These exclusive insights reflect the opinions and outlooks shared by senior delegates during a roundtable event for Mashreq during the renowned ADIPEC conference in Abu Dhabi in November. The event was hosted by Gulf Intelligence under the Chatham House Rule. Any further use of this content must cite SNOC and this report.

**E**nergy companies cannot support Net Zero goals without having far more financial support themselves, especially oil and gas – that is a persistent and key missing piece. However, this is no longer a simple equation. Bankrolling an energy project today potentially means not realizing production until 2030, with returns thereafter – particularly less appealing amid global economic strain, delegates said. While many projects are on stakeholders' desks for consideration, especially with the diversification of the energy basket, the uncertainty over access to finance is slowing broader progress.

"The pace of policy and regulatory changes around energy security and Net Zero means the parameters of investing in oil and gas, and even renewable energy, could be entirely different in a couple of years, which means far more considerations must now be made for longer-term projects in oil and gas" one delegate explained. Lower carbon markets are not immune either. For example, the science and policies surrounding battery waste are economically and environmentally unclear, so even investing

**"In the push for Net Zero, oil and gas are not the bad guys. We want to come back into the conversation and cooperate with banks. If you are an exploration and production oil and gas company right now, the world can be a very dark place in terms of investment."**

heavily in this greener technology today raises many questions later for financiers.

Equally, the upmost importance of having security of supply means investing in fossil fuels now is paramount, for the renewable energy market will not be equipped to deal with the world's rising energy demand for decades yet. Investors and the energy industry must accept there will be a stream

## FIRST MOVER ADVANTAGE

The UAE's target of Net Zero by 2050 stands on the shoulders of decades of financial innovation throughout the nation. Already, much has been done to review, invest, and to a degree, reduce, the environmental impact of the nation's vast hydrocarbon industry. This has resulted in a surge of world-leading clean technologies and a rapidly growing and eager pool of green talent, though demand for both is ever-rising. Such efforts bode very well as the UAE is openly keen about wanting to deepen alliances with existing partners and to build new relationships in the region and worldwide. Delegates emphasized how those in the UAE's energy sector are "very blessed to have a benevolent government that focuses on the bottom line as well as the importance of people." That the UAE's drive towards a greener future

is far from new adds to the nation's credibility, especially with COP28 in November 2023. For example, His Highness Sheikh Mohamed bin Zayed Al Nahyan, the President of the UAE, said in 2015: "The question is, 50 years from now after we have loaded this last barrel of oil, are we going to feel sad? If our investment today is right, I think – dear brothers and sisters – we will celebrate that moment." This forward-thinking attitude also means the UAE has an easier task than some other nations at implementing major changes quickly, such as the US, delegates said. Plus, the UAE has a smaller number of big emitters of CO<sub>2</sub> emissions and methane and many of these are state-owned, meaning positive changes can be replicated relatively quickly across the energy and technology portfolio.





## The bigger picture

Large and ongoing financial support from national banks, as well as international players, can ensure the UAE sustains its world-leading momentum in all forms of energy. This must encompass supporting the oil and gas markets in-country, as well as the nation's green energy ambitions, the latter helped by having one of the highest solar exposure rates globally (2,285 kWh/m<sup>2</sup>).<sup>1</sup> As the UAE pushes for Net Zero at home, it is also investing in supporting and partnership

with others internationally. For one, the country committed \$400mn to enable developing nations' transition to clean energy and pledged to help supply green electricity to 100mn Africans – equivalent to nearly ten times the size of the UAE's own population – by 2035.<sup>2</sup> Plus, the Gulf state, alongside the US, promised to raise \$4bn to invest in technologies that would transform agriculture and food production to limit climate change.<sup>3</sup> And already, the renewables arm of Emirati sovereign-wealth fund Mubadala Investment Co has deployed more than \$20bn in clean energy projects since it began investing in renewables in 2006.<sup>4</sup>

Sources: 1 Mordor Intelligence; 2 WSJ, Zawya; 3 WSJ, Zawya; 4 Global SWF.



**“There are still some banks whose balance sheets are geared towards long-term projects, who are willing to embrace the potential policy and regulatory changes over a seven-to-ten year period. But this pocket of access is undoubtedly shrinking.”**

of questions for decades to come as the world transitions to a cleaner future, with all industries in uncharted territory. For many, answers will take time to emerge. This cannot hinder overall flow of funds for the extremely negative impact of inaction on the three P's – people, planet, profit – vastly exceeds the risk of supporting fossil fuels and exploratory greener markets today.

For a few oil and gas companies that have “a lot of capital at their disposal, more than they have had for a very long time”, there is an urgent need for clearer roadmaps to Net Zero. Such transparency will give these companies more confidence to deploy their capital effectively. Like the investment community, they do not want to move down one road to find out later than policies and regulations deem it less profitable.

Greater clarity will also reduce the volume of back-and-forth conversations throughout industry, with one party saying: “I cannot tell you what I need as I do not know what that looks like.” And thus, the “ping-pong game” between investors and energy companies escalates, feeding confusion and frustrations, delegates said. This creates a fractured space for the oil and gas industry, slowing progress towards Net Zero.

So, more collaborative, troubleshooting engagements between energy and financial stakeholders would be invaluable to bolstering confidence on both sides, freeing up the flow of funds. This would help safeguard energy security and accelerate progress towards Net Zero – a critical win-win. Plus, an attitude of inclusivity and learning is crucial, rather

than stakeholders penalizing one another for a lack of progress. Knowledge-sharing is also paramount, so solutions are replicated across other businesses and sectors. This saves stakeholders untold hours of guesswork – time that should be spent finding more answers as the energy-climate relentlessly ticks on.

#### **SHEDDING NEW LIGHT**

Pricing carbon is central to achieving Net Zero, in the UAE and worldwide. It gives investors and all other stakeholders a very clear metric on how to value CO<sub>2</sub> emissions, enabling financial institutions, for example, to forecast more accurately, better determining the best investment route to help shrink carbon footprints. So far, seventy carbon pricing initiatives have been implemented worldwide. This represents 23.17% of global greenhouse gas (GHG) emissions, up from just two initiatives in 1991, but it also means that 76.83% of GHG emissions are not covered.

Still, developments in the Middle East are emerging. Saudi Arabia's Public Investment Fund has established a Regional Voluntary Carbon Market Company with Saudi Tadawul Group Holding Company, including the region's first carbon offset auction of 1mn tons of credits, while the UAE expects to soon start a carbon offset trading exchange in Abu Dhabi.

Plans to enhance voluntary carbon pricing mechanisms – which need to be followed by compulsory strategies before decade-end – need consistent policies that drive measurability, scalability, and accountability.



**“Reputationally, banks will always take comfort in having a national agenda that is incentivising financial commitments for an overhaul of this degree – something the UAE has done a lot of work on.”**

## 28yrs

left for the UAE to achieve its Net Zero target, by 2050. It was the first nation in the Middle East and North Africa (MENA) to set such a goal.

## 1<sup>st</sup>

The UAE will host COP28 in November 2023, highlighting the appetite of the third largest producer in OPEC to support a greener future.

## 2052

The UAE plans to invest \$163bn in clean and renewable energy sources over the next 30 years.<sup>1</sup>

## 2GW

The UAE is building the world's largest solar plant with a total capacity of two gigawatts in Abu Dhabi.<sup>2</sup>

## \$100bn

deal between the UAE and the US to develop 100GW of clean energy globally by 2035 highlights growing momentum for partnerships in the challenging journey to Net Zero.<sup>3</sup>

## 3.8mn

barrels of oil from OPEC+ countries were “lost” due to a lack of investment over the last two years.<sup>4</sup>

## 2045

\$12.1trn of investment in the oil industry is needed over the next 23 years to meet demand.<sup>5</sup>

## \$6trn

per year of investment is needed worldwide to enable a low-carbon economy by 2050 – far higher than current levels.<sup>6</sup>

## x100

growth in green financing aimed at environmentally friendly projects worldwide over the last decade, swelling to \$540.6bn in 2021.<sup>7</sup>

## 4%

was the share of green finance in the overall finance market in 2021, up from 0.1% in 2012 but still vastly lower than what is needed to meet Net Zero.<sup>8</sup>

## 80%

decline in the price of solar power since 2010.<sup>9</sup> The UAE has helped propel this reduction, developing some of the world's largest and most competitively priced projects.

## 1972

The number of disasters globally has increased by a factor of five over the last fifty years, due to climate change, more extreme weather, and improved reporting.<sup>10</sup>

Sources: 1 Zawya; 2 The National; 3 S&P Global Commodity Insights; 4 The National; 5 OPEC, The National; 6 UNFCCC; 7 TheCityUK and BNP Paribas; 8 TheCityUK and BNP Paribas; 9 World Economic Forum (WEF); 10 World Meteorological Organization (WMO).

