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ENERGY TRANSITION DIALOGUES

INTELLIGENCE BRIEFING

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SCROLL DOWN!

NOCS' BLUE HOPES? BIG OIL'S PUSH? SPOTLIGHT ON ESG THIS WEEK'S EVENTS

HYDROGEN

BLUE HYDROGEN PIVOTAL TO MENA'S ENERGY FOOTHOLD

Omar Germouni, CEO, TranSengY

Both international oil companies (IOCs) and national oil companies (NOCs) can leverage their existing client base and infrastructure to create a hydrogen economy. With these tools, blue hydrogen can pave the way for more sustainable solutions – like green hydrogen and ammonia – with incremental investments on existing industrial assets. Cost is a big factor (that currently plays in blue hydrogen's favor?) – there is a fourfold difference in the price of blue and green hydrogen, depending on where you are worldwide.

FULL INTERVIEW HERE

Between a rock and a hard place?

NOCs need many factors to play out quickly in order to transition away from fossil fuels. Although they can leverage their existing assets, they still need to build infrastructure if they aim to export to their traditional markets in Europe, for example. They also need to build their expertise and internal capacity. Therefore, blue hydrogen is instrumental in allowing NOCs to establish a strong foothold in this space. IOCs have a tradition of acquiring companies, innovation, and joining forces. Therefore, they will be much faster in demonstrating the economic feasibility of green hydrogen. This will encourage NOCs to accelerate their development (green or blue?), but there will still be a 5-10-year lag between IOCs and NOCs. The good news for countries with strong NOCs is that they will contribute to economic diversification and be able to create stronger synergies between upstream, downstream, and manufacturing value chains.

7MT was the total hydrogen consumption of countries in the GCC in 2019.[1]

0.5MT was the UAE's total hydrogen demand in 2019, driven mainly by industrial applications - fertilizers, steel, and oil refining.[2]

$122BN is ADNOC's budget over 2021-25 to make the UAE self-sufficient in gas and to cover the development of low-carbon hydrogen. This has triggered the development of core competencies in blue hydrogen.[3]

$1-2.3/KG is the cost of blue hydrogen, which is equivalent to $7.9-18.2/MMBtu of natural gas.[4]

Sources: UAE's Role in the Global Hydrogen Economy

BIG OIL'S TRANSITION DRIVE NOT WITHOUT RISKS

GIQ SNAPSHOT

The oil and gas sector faces a cliff of challenges. The industry recorded more than $230bn in impairments and asset write-offs last year alone and the financial and environmental argument for fossil fuel divestment continues to grow, despite stabilizing prices. Adding to this, the conversation on peak oil is becoming louder and louder and there could be up to $1trn of stranded assets for the global fossil fuel industry in the next few decades. The industry is undoubtedly in a squeeze, but it has many tools to help it become a pioneer and not a victim in the global energy transition.

Sources: Deloitte, Global Energy Monitor

Marischa van Zantvoort, Founding Partner & CEO, Magnifor

While oil majors face the challenge of stranded assets, they also have huge opportunities in renewable energy. Plus, the increased pressure placed by shareholders on tier one oil companies to diversify will give more market share to tier two and tier three players. The risk of the latter is that they may not take their ESG commitments as seriously as tier one players. The transformation need not be hasty. Controlled risks are the best way to manage climate change.

Decentralized energy supply

The next big thing to watch out for is that every household in every building will supply its energy. We have seen disruptions in many industries where there is a decentralization of energy supply taking place. We will continue to see this, with consumed energy being given back to the network.

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TOP TAKEAWAYS

- Strategic and controlled risk is the best way fossil fuel companies can manage their energy transition. Excessive speed carries its own major risks.
- IOCs face greater climate scrutiny, but they also provide an anchor for NOCs to enhance their transition. More collaborations will benefit both parties.
- The opportunity of diversifying portfolios is the flip side to the growing risk of stranded assets. Unsurprisingly, this is a key area that tier-one oil players are stepping up their transition efforts.

TOP 5 NEWS STORIES

OPEC Chief: Conversation on ET is 'Misrepresented'
Uniper, Ørsted Form Offshore Wind-to-Hydrogen Partnership
Sharjah Taps Local Gas Supply to Meet Demand
APICORP Adopts New Green Bond Framework
BP Gambles Big on Fast Transition to RE

PODCAST

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THIS WEEK

ESG INVESTING: ACCELERATING THE ENERGY TRANSITION?

Jessica Robinson
Founder & Managing Director, Moxie FuturesHead of

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The Middle East has come a long way in its understanding of ESG and the risk perspective, especially in the last two years. This is being driven by regulators and the realization that climate risk is very material.

Institutional investors are waking up to the fact that something needs to happen – and it needs to happen quickly. A lot of the challenges we face are around capacity and ESG expertise, with the latter lacking in the region. The other challenge in the region is that many people still perceive ESG to be the same as corporate social responsibility (CSR). Globally accepted taxonomy will give financial institutions a definition of what an ESG investment actual entails.

Put a price on carbon

We are now seeing a lot of institutional investors, including sovereign wealth funds, putting internal carbon pricing mechanisms in place. This is important to help us speed up the energy transition. The sooner we put a market value on greenhouse gas (GHG) emissions, the sooner we can price it into the market and the sooner we can develop the required financial products. When you introduce a carbon pricing mechanism, whether it is compulsory or voluntary, you build confidence. This ultimately drives capital. Furthermore, investors will increasingly understand that carbon pricing is the future. We need our policymakers and our regulators to send very clear signals to institutional investors and corporates. The sooner that happens, the better.

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Hawazen Nassief
Vice President – ESG & External Affairs, NESR

When looking at the future of the energy transition, we must keep in mind the risk of energy inequality and energy poverty in some parts of the world.

For a shift towards a circular economy, we first need to understand aThe dual challenge is transitioning while generating profit and returns, so that companies continue to exist. We have developed ESG impact technologies, which help NOCs produce oil more sustainably. We need to create a system that works for everyone, as opposed to creating unnecessary losers in this transition.

GCC's ESG push

We are observing a lot of ESG activity in the Middle East over the last year. Saudi Arabia's Vision 2030, Oman's Vision 2040, and UAE's 2030 Vision all have sustainability at their core. Transitioning to a greener future is important for the livelihood of everyone. Countries in the region need to develop their understanding of ESG and how that should look. The models developed in the EU and US do not necessarily fit the needs, priorities, or stages of development in other countries. It is not a case of one-size-fits-all, which seems to be the push right now.

Spotlight on fossil fuels

There is a lot of pressure from investors and regulators in the region to upgrade the performance of oil and gas companies. The main ESG issues these companies face relate to water scarcity, management of environmental waste in the process of oil production, and GHG emissions. There has been incredible progress in the development of technologies that can tackle the ESG issues tied to oil and gas production, which is important for the regions' future.

Dr. Patrick Schröder
Senior Research Fellow – Environment and Society Programme, Chatham House

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One thing to look out for in accelerating ESG investments is the development of green financial taxonomies. This is a promising tool that can direct financial flows towards more sustainable solutions.

The advantage of these green finance economies is that they provide a common classification system to identify specific activities, assets, and project categories that can deliver a positive environmental or social impact. They include thresholds and specific targets. They use common principles and importantly, they tend to be science-based.

COP26 outcomes?

Currently, carbon risk is not properly reflected in the market – they are underestimated. Apart from the direct impact, there are compounding risks that go into all kinds of other security, including the potential risk for more violence and even inter-state conflicts. The political commitment that comes out of COP26 will be important. We need to achieve the commitment to reach $100bn per year of climate funding. We also need to see countries stepping up their climate targets, which they have indicated in their Nationally Determined Contributions (NDCs).

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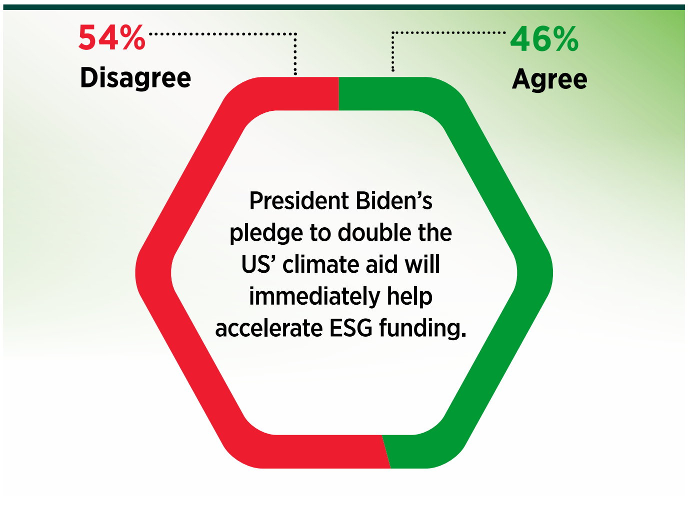
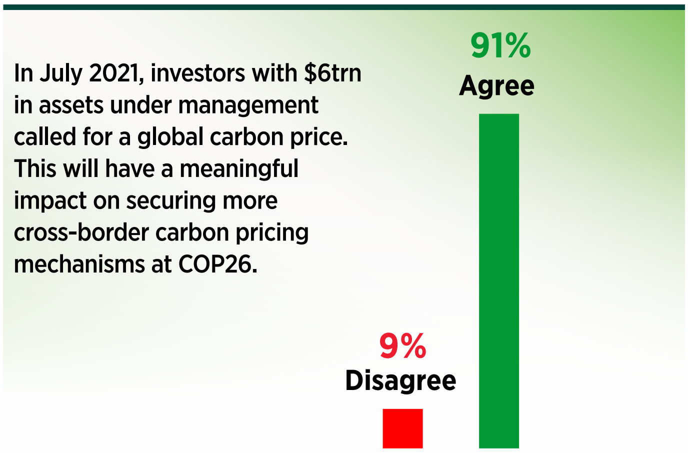
SURVEY ANALYSIS

US' CLIMATE BUCKS: HIT OR MISS IMPACT?

Michelle Meineke
Director, Energy Transition Dialogues

Green money talks – especially just weeks away from COP26. But more than half of the respondents to our survey don't think the US' latest move turns up the volume on the ESG conversation enough.





They argue that the near doubling of US fundings by 2024 to $11.4bn per year to help developing nations deal with climate change will not immediately impact overall momentum for ESG – and speed carries a lot of currency right now.

The remaining 46% believe it will, saying any big-ticket green investment – especially by the world's biggest economy and oil producer – helps build the ESG wave of capital in oil, gas and all markets (some tier one oil and gas operators have long taken CSR and ESG pretty seriously). So, the jury is out with a near-equal split. Only time will tell which camp cast their vote correctly, but one thing is for sure: ESG is booming.

Global ESG assets may hit $53trn by 2025 – a third of global assets under management (AUM).[1] In the very recent past, this was a near-unimaginable situation within this timeframe. While Europe accounts for half of global ESG assets, the US has the strongest expansion this year and may dominate the category starting in 2022[2] – hence our question.

I believe the more financial commitments in mitigating and managing climate change, even if not directly linked to ESG, the better. It says: "We're here to stay and the longer you take to get on board this fast-moving train, the greater risk you have of falling under the commercial, environmental, and social tracks." And surely no one wants to fall onto the tracks? This is especially true when there is a flashing neon sign warning them against it in every news headline and board meeting.

There is no doubt that ESG is rapidly developing in the Middle East, especially in the last 18 months, as is the theme for green growth generally. A survey of 2,000 capital markets issuers and investors by HSBC reflects a move in the region to pursue firm-wide policies on responsible investing or ESG factors.[3] Nearly half (41%) cited this intention – the highest amongst all the regions surveyed. And the large majority of issuers in the Middle East – 93% – cited environmental and social issues as important to them. Again, this story was very different even five years ago. With increasingly bullish forecasts being propelled by the very real and urgent need to act, the story by 2026 should be dramatically different once again. Here's a hoping.

1 Bloomberg; 2 Bloomberg; 3 HSBC

THIS WEEK'S EVENTS

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