Weekly Insights 28 Oct 2021: GCC Climate Commitments need to be translated into Robust Climate Strategies

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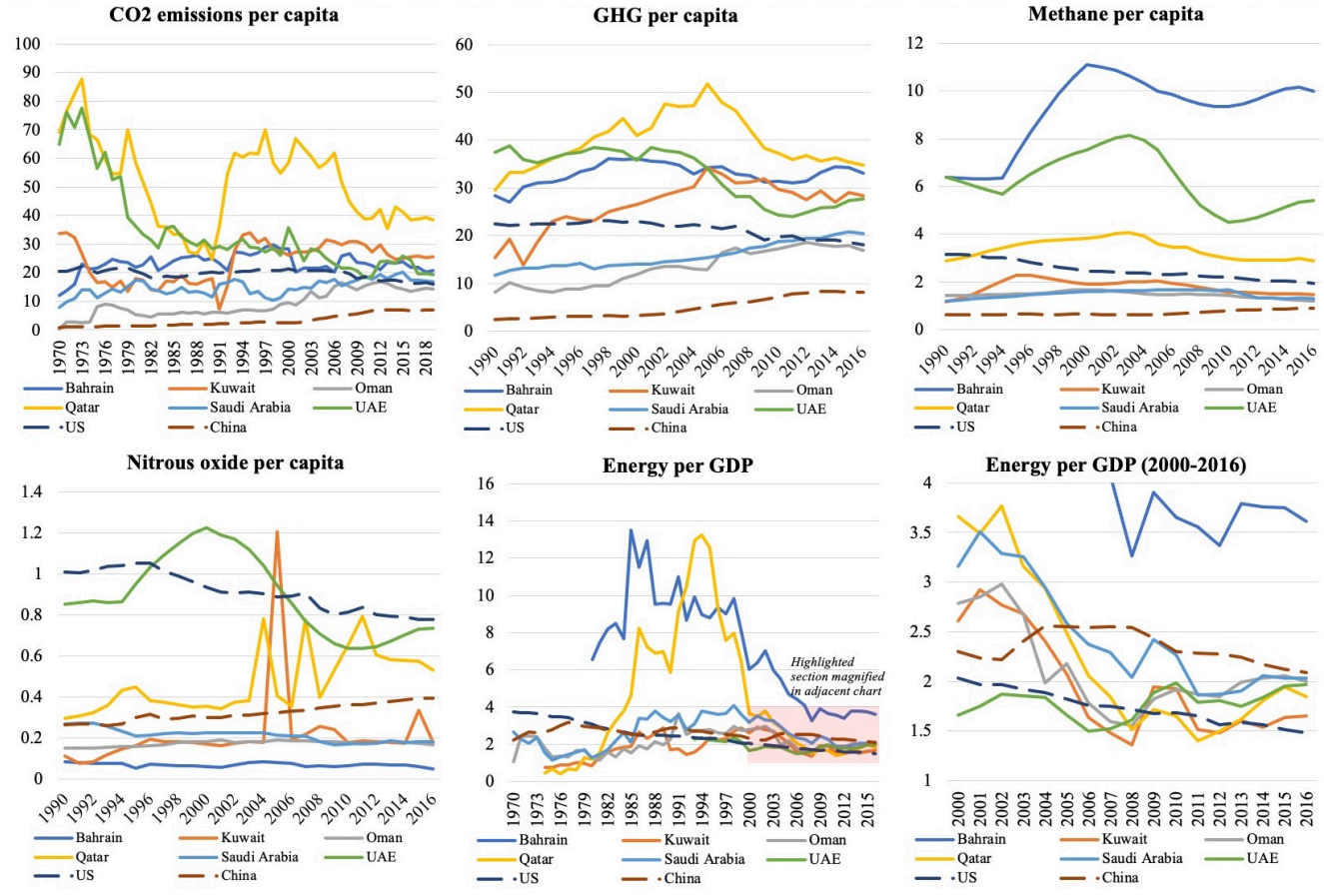
1. GCC Climate Commitments need to be translated into Robust Climate Strategies

- **China, the US and the EU are the top 3 greenhouse gas emitters** (on an absolute basis): together they contribute 41.5% of total global emissions vs. the bottom 100 nations' 3.6%.
- Together, **top 10 emitters account for over two-thirds of global GHG emissions** *(Source: World Resources Institute)*
- Globally, the **energy sector** (including electricity, transport, manufacturing, buildings, fugitive and other fossil fuels) continues to dominate as the **biggest GHG emitter**
- **In the MENA region: (a) Emissions from Saudi Arabia top the list:** it contributes only 1.34% to global emissions; (b) **Energy accounts for 82.3% of total emissions** (as of 2018), more or less unchanged from 1990 (83%)

- However, with climate change on the top of the agenda of governments across the globe, it is little wonder that in the past few days, **UAE announced net-zero emissions commitment by 2050 and Saudi Arabia and Bahrain by 2060.** (Qatar this morning announced its aim to reduce GHG emissions and reduce carbon intensity of its LNG facilitate by 25% by 2030)
- **While details of these commitments will be released at a later stage, we ask: (a) What can be done to support such goals? (b) What do these commitments imply for oil producers?**

2. How do the GCC nations compare to top (absolute basis) emitters China & the US? A long way to go…



Source: Our World In Data; charts by Nasser Saidi & Associates

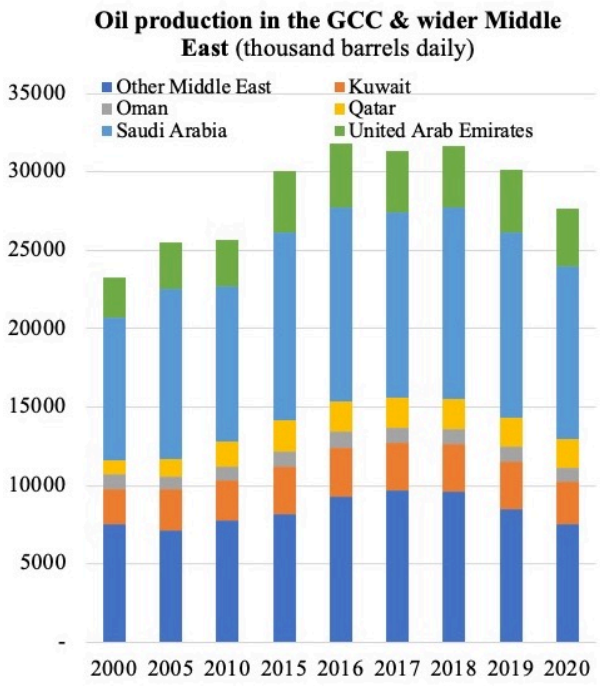
3. Saudi, UAE Net-Zero Emissions Commitments

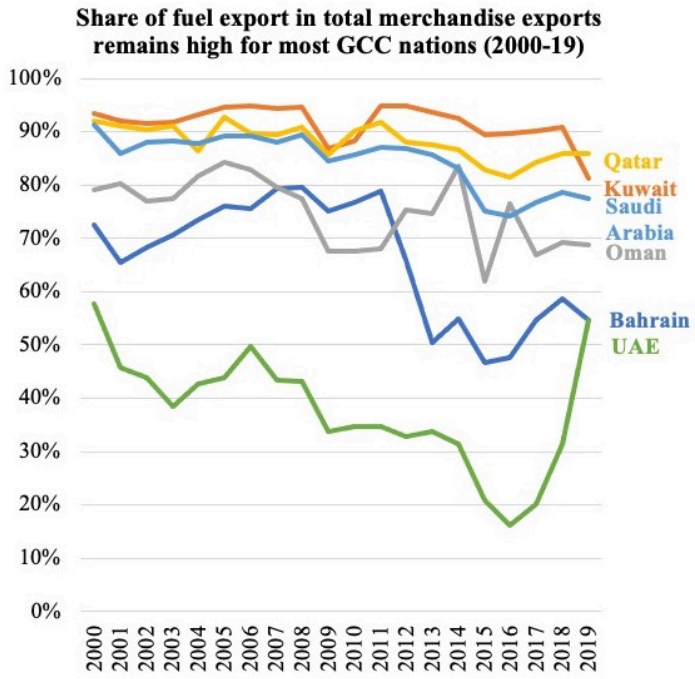
Saudi Arabia	UAE	Middle East Green Initiative
• Invest SAR 700 bn (USD 187bn) in climate action • By 2030, remove 278mn tonnes of CO_2 equivalent a year • Half electricity generated will come from solar by 2030 (vs 1% currently) • Will rely on carbon capture and storage • Also signed up to cut methane emissions 30% by 2030 • No restrictions on oil production/ exports	• Invest AED 600bn (USD 163bn) in "clean and renewable" energy till 2050 • Previous commitments: to reduce emissions by 23.5% by 2030 & 50% of electricity from renewables & nuclear energy by 2050	• Secure SAR 39bn (USD 10.4bn) for an investment fund to reduce carbon emissions in the region (KSA to contribute 15% of funds) • Create a cooperation platform to implement the concept of a circular carbon economy • Develop a regional centre for Carbon Capture, Utilization, and Storage (CCUS) • Create a regional cloud seeding program

Bottomline: Headlines need to be translated into Climate Strategies & Policies

4. Oil production to tick up given OPEC+ agreement; oil exports dominate overall exports in most GCC nations

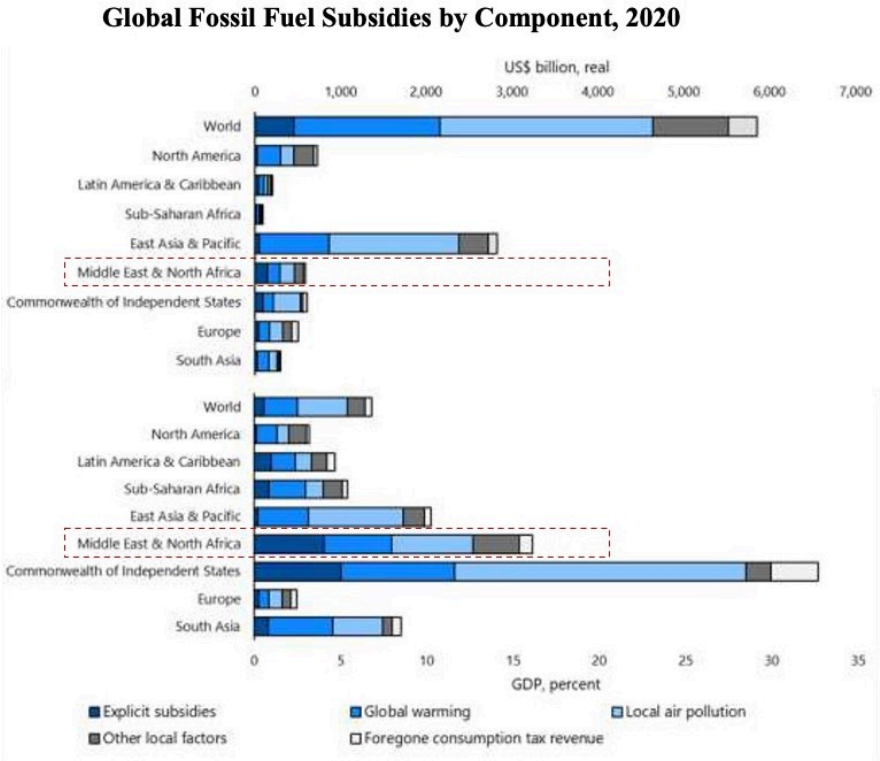
- UN carbon accounting rules imply that **emissions from fossil fuels are counted where they are burned**, not where they are produced
- However, **rising oil & gas production will leave count towards domestic emissions**; these need to be countered by investing in cleaner machinery, monitoring gas leaks and regular repairs





Source: BP Statistical Review of World Energy 2021, WTO database. Charts created by Nasser Saidi & Associates

5. What can be done to support NZE goals? Eliminate fossil fuel subsidies (USD 5.9trn globally in 2020)



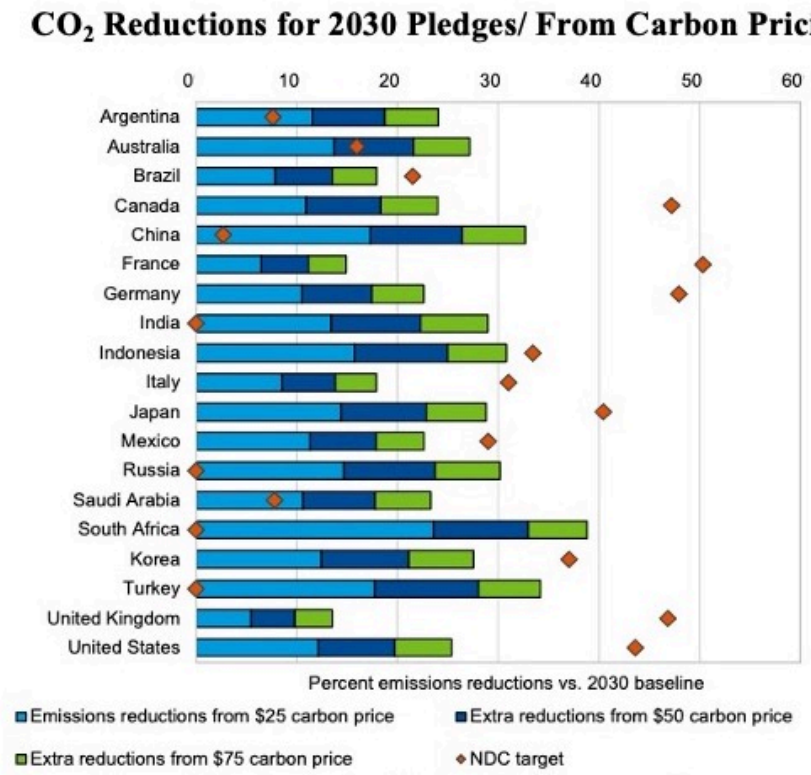
Source: "Still Not Getting Energy Prices Right: A Global and Country Update of Fossil Fuel Subsidies", IMF Working Paper, Sep 2021

- **Countries subsidize fossil fuels in 2 ways**: undercharge for the product or for other costs (like damage to the planet & people's health)

- **According to the IMF, just 8% of the 2020 subsidy reflects undercharging for supply costs** (explicit subsidies) and 92% for undercharging for environmental costs and foregone consumption taxes (implicit subsidies).
- **Efficient fuel pricing in 2025 would**: (a) **Reduce global CO2 emissions** 36% below baseline levels (in line with keeping global warming to 1.5 degrees); (b) **Raise revenues** worth 3.8% of global GDP; (c) **Prevent** 0.9 million **local air pollution death**

6. What can be done to support these goals? Carbon pricing /

taxes



Source: "Proposal for an International Carbon Price Floor among Large Emitters", IMF Staff Climate Notes, 2021/001
Note: NDCs as of 2 June 2021

Ahead of COP26, **60+ carbon pricing schemes have been implemented globally**

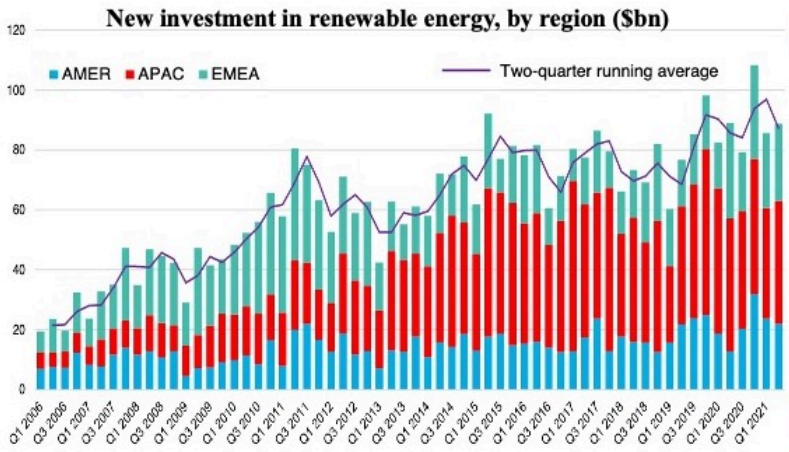
- However, **only about one-fifth of global emissions are covered by pricing programs** and the global average emissions **price is only $3 per ton**.
- An international **carbon price floor can be strikingly effective**. IMF proposes $75 a ton for advanced economies, $50 for high-income EMEs such as China, and $25 for lower-income EMEs such as India (to keep warming below 2 deg)
- The figure suggests that a $25 price floor would be binding for Saudi Arabia

Carbon tax is the most efficient price mechanism to:

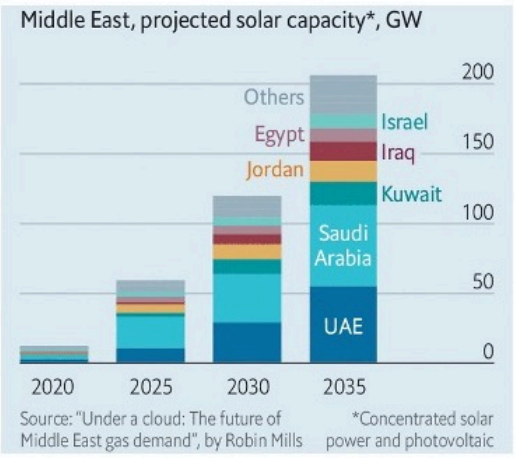
- Improve energy efficiency in consumption & production;
- Accelerate energy transition;
- Encourage RE & CE investment + R&D

7. What can be done to support these goals? Investments in Renewable Energy

- Government efforts to curb climate change alongside advances in technology and falling costs has meant that **renewables are becoming more competitive**
- **Decarbonisation & 'green economy'** present **opportunities for economic diversification** and technological innovation
- **Solar capacity** is predicted to increase substantially in the Middle East; reinforce **electricity-distribution grid; large & community-scale energy storage;** encourage activity in new avenues like **hydrogen market**
- **Improve energy efficiency:** retrofit buildings/ LED streetlights; Improve industrial energy efficiency (replace equipment, upgrade waste-heat technologies)



Source: Renewable Energy Investment Tracker, 1H 2021, BNEF



8. In post-Covid19 era, investments in renewable energy will support job creation & growth

- **Pre-Covid19 pandemic, the Middle East needed 33.3mn new jobs to be created between 2020 and 2030** to reduce the unemployment rate to 5%. However, with the COVID-19 crisis, **nearly one third of the employed population in**

the region is facing high risks of layoff or reduction of wages and/or hours of work

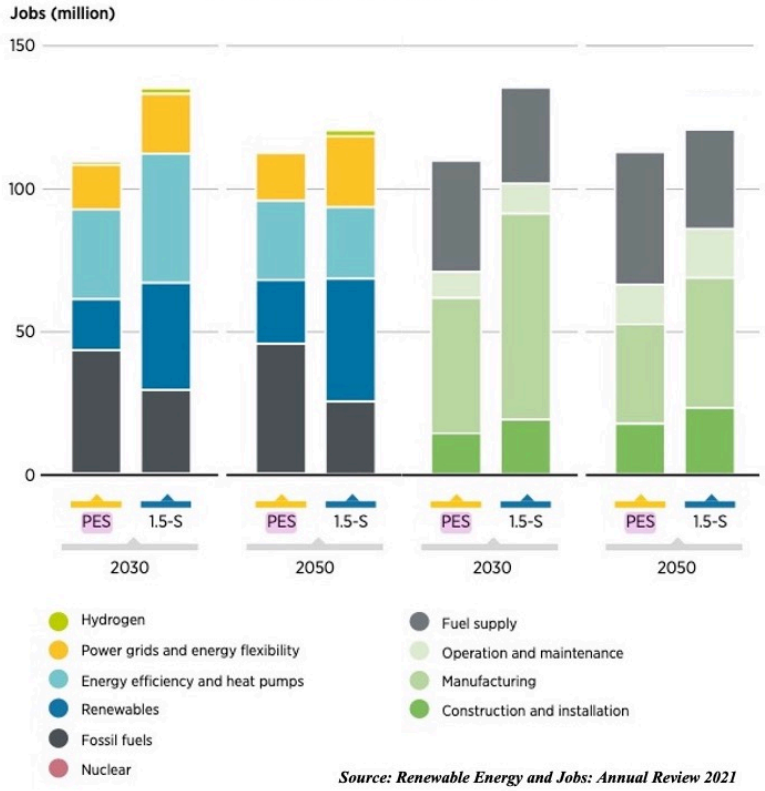
- **Renewable energy jobs could provide support:** according to a recent ILO/ IRENA report, about energy sector jobs will reach 122mn by 2050 (of which 43mn will be in renewables); electrolysers and other green hydrogen infrastructure can create about 2 million jobs globally from 2030 to 2050

Quarterly estimates of working hours in Arab States

	Change in working hours relative to 2019 Q4 (adjusted for population aged 15-64)	Equivalent number of full-time jobs (i.e. 48 hours/ week)
Q1 2020	-2.30%	-1,200,000
Q2 2020	-19.40%	-9,800,000
Q3 2020	-9.30%	-4,700,000
Q4 2020	-5.00%	-2,500,000
Q1 2021	-7.20%	-3,700,000
Q2 2021	-6.50%	-3,400,000
Q3 2021	-6.50%	-3,400,000
Q4 2021	-4.50%	-2,400,000

Source: ILO Monitor: Covid19 & the World of Work 8th edition, Oct 2021

Energy sector jobs by technology & segments of value chain under Planned Energy & 1.5°C Scenario, 2030 & 2050



Source: Renewable Energy and Jobs: Annual Review 2021

9. Positive implications of NZE commitments for oil producers. But reality typically diverges!

BENEFITS for oil-producing nations

- Build more **diversified, resilient, greener & fairer economies** post-Covid19; create a new alternative export base
- **Reduce emissions**, support climate policies
- Greater **fiscal consolidation**: remove fossil fuel subsidies & gradually introduce carbon taxes
- These provide cost incentives to **improve energy**

efficiency & shift the **energy mix away from fossil fuels** towards renewables

- **Reduce dependence on oil AND** (a) **address potential stranded asset risk** by privatizing / selling participation in energy reserves & related assets; (b) **divest away from fossil fuel assets** (esp GCC wealth funds)

REALITY CHECK

- A **total of 49 countries + the EU had pledged a net zero target (as of mid-Sep),** according to an UNEP report released this week
- Covers over half of global domestic GHG emissions, over half of global GDP and a third of the global population
- However, **only eleven targets are enshrined in law**, covering 12% of global emissions
- **Key questions to ask: (a) How will commitments be enforced?; (b) How can one ensure that governments stick to their pledges?**