

**Weekly Insights, 22 Apr 2021**

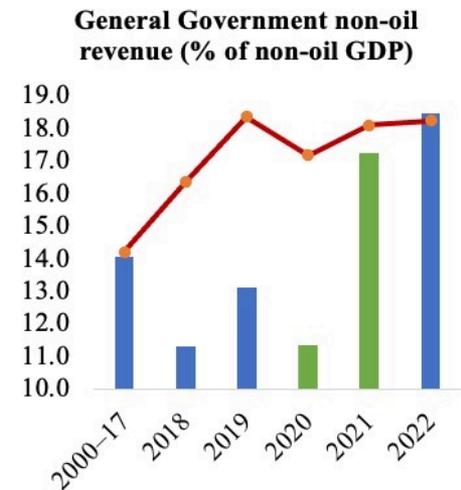
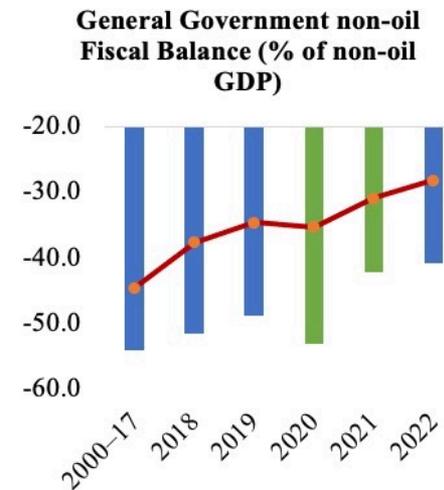
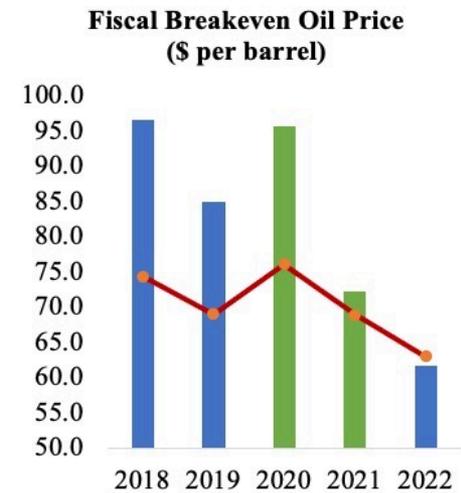
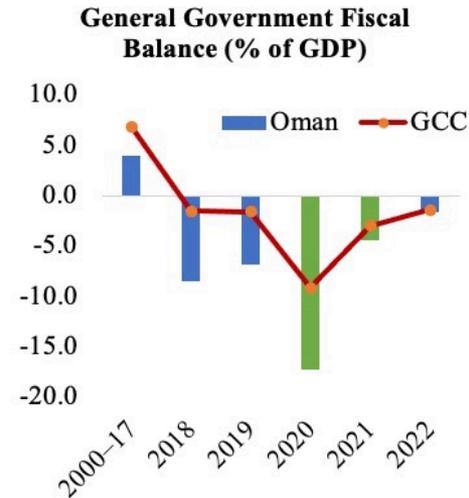
**GCC: Oil-dependence & Path to  
Climate Resilience**

**NASSER SAIDI**

— & ASSOCIATES —

# Oman: 4th GCC nation to implement VAT

- **Oman introduced 5% VAT** on most goods and services, **starting Apr 16**
- UAE and Saudi Arabia rolled out 5% VAT in 2018 & Bahrain in 2019
- According to Ministry of Finance estimates, **Saudi increased non-oil tax revenues to 32% in 2018** (vs just 10% in 2010), 36% in 2019 and estimated to rise to 46% in 2020 (given tripling of VAT)
- **UAE collected AED 27bn in VAT in 2018** (1<sup>st</sup> year) & AED 11.6bn in Jan-Aug 2020 (pandemic year); **VAT revenues in Bahrain** touched BHD 260mn in 2019 and BHD 220mn in 2020.
- Oman's VAT is estimated to **generate ~OMR 400mn (USD 1bn) in revenue** annually, roughly ~1.5% of GDP (if effectively and efficiently implemented)
- As a result, the IMF projects **fiscal deficit to decline** to 4.5% of GDP in 2021 (2020: 17.5%) & **non-oil revenue to rise** to 17.2% of non-oil GDP in 2021 (2020: 11.4%)
- **This move will lead to** an improvement of Oman's sovereign credit rating + lower the cost of credit + attract more FDI & portfolio investment as a result of the ensuing reduction in macroeconomic risks



Source: IMF Regional Economic Outlook, Apr 2021

# GCC's Diversification Efforts & Renewable Energy policies => Transition to a lower-oil dependent region

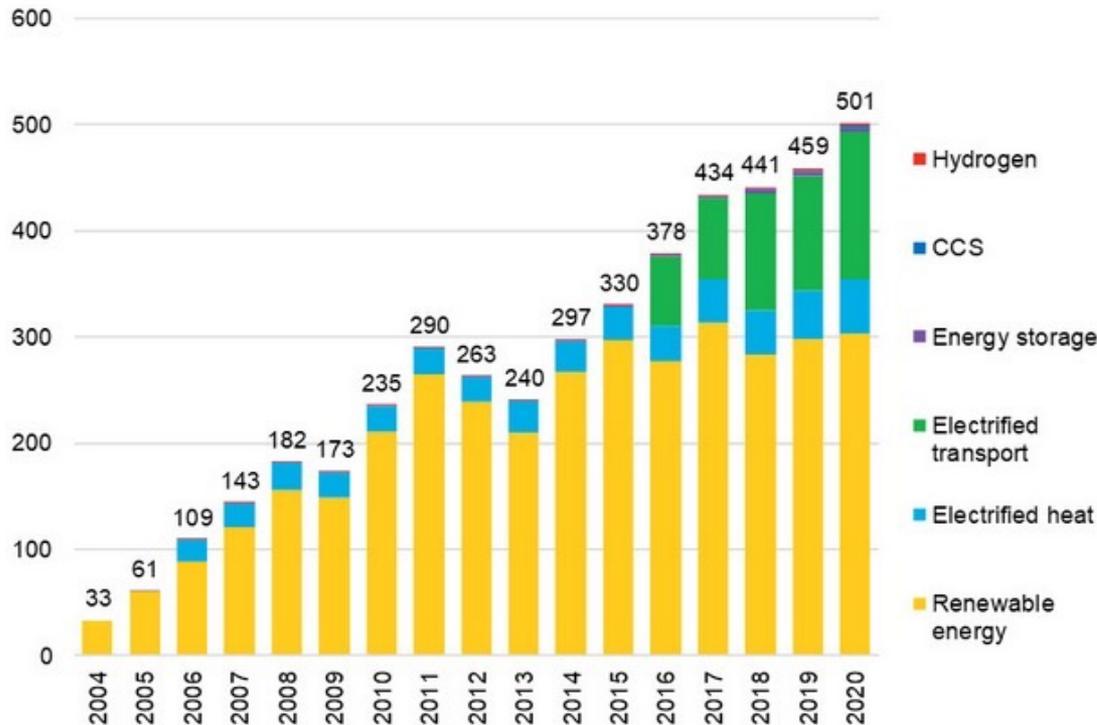
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- **Unsustainable path of dependence on oil:** current oil demand vs supply, pressure on oil prices + current fiscal & social spending policies => fiscal unsustainability: GCC's aggregate net financial wealth (est. at \$2trn) could be depleted by 2034 (IMF)
- **Oil market structure & dynamics are changing**, given global energy transitions: pre-Covid19, shale & renewables were already displacing conventional oil
- Major **challenges** for the oil market (*non-exhaustive list*):
  - **Demand-side factors:**
    - Gov't plans for sustainable recovery, ambitious **goals for net-zero emissions**
    - **Covid19-led collapse in demand:** potential WFH policies & mobility, question marks over recovery of business/ leisure air travel
    - Energy efficiency improvements, EV penetration
  - **Supply-side factors:**
    - Spending cuts and project delays could slow oil supply growth
    - Large cost reductions in renewables + advances in digital technologies
- **Climate Change & Decarbonisation Risks are growing** - could lead to sharp fall in fossil fuel asset prices => stranded assets risk

# Energy Transitions & GCC's ambitious targets

- The two-day virtual Leaders Summit on Climate (from today), hosted by the US President, brings the US back into play with respect to global action against climate change
- Latest news that banks & financial institutions with USD 70trn+ assets pledged to cut their greenhouse gas emissions & ensure their investment portfolios align with the science on the climate adds to the commitment

**Global Energy Transition Investment, 2004-2020**  
(USD bn)



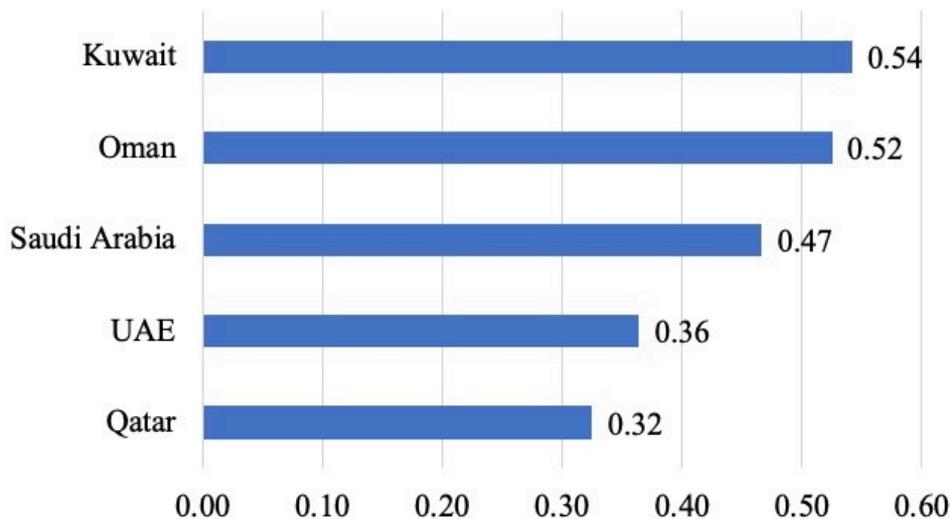
Source: Energy Transition Investment Trends, BNEF, Jan 2021  
<https://about.bnef.com/energy-transition-investment/>

Renewable energy targets	
<b>Bahrain</b>	National renewable energy target of 5% by 2025 & 10% by 2035
<b>Kuwait</b>	Increase the share of renewable generation to 10% by 2030
<b>Oman</b>	Derive at least 30% of electricity from renewables by 2030
<b>Qatar</b>	Attain 20% of its energy from solar power by 2030
<b>Saudi Arabia</b>	Generate 50% of its energy from renewables by 2030
<b>UAE</b>	Reduce GHG emissions to 23.5% vs business-as-usual emissions for 2030
	Increase the share of clean power to 50% of the total energy mix by 2050

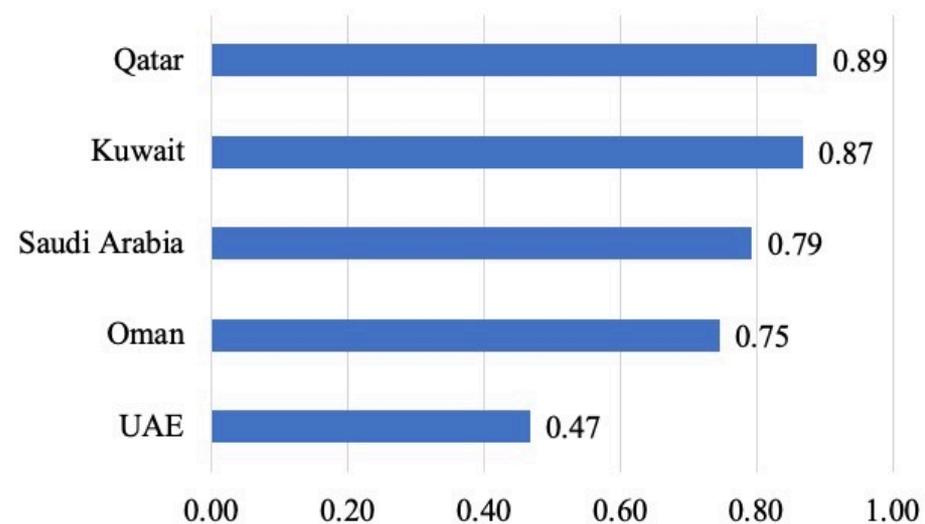
# Are the GCC nations prepared for a low-carbon economy transition?

- The preparedness of countries for a low-carbon transition (LCT) is measured by **exposure and resilience indexes**: highlights turning the risks of an LCT into opportunities for robust growth.
- **GCC nations are significantly exposed**, especially given dependence on oil (resource rents, carbon intensity, GHG emissions): Qatar scores highest exposure & UAE the least
- **However, the GCC are relatively well prepared for an LCT** thanks to its resilience, particularly its relatively good macro stability and supportive business environment alongside high quality of infrastructure, human capital and institutions

**Resilience to a low-carbon economy transition**



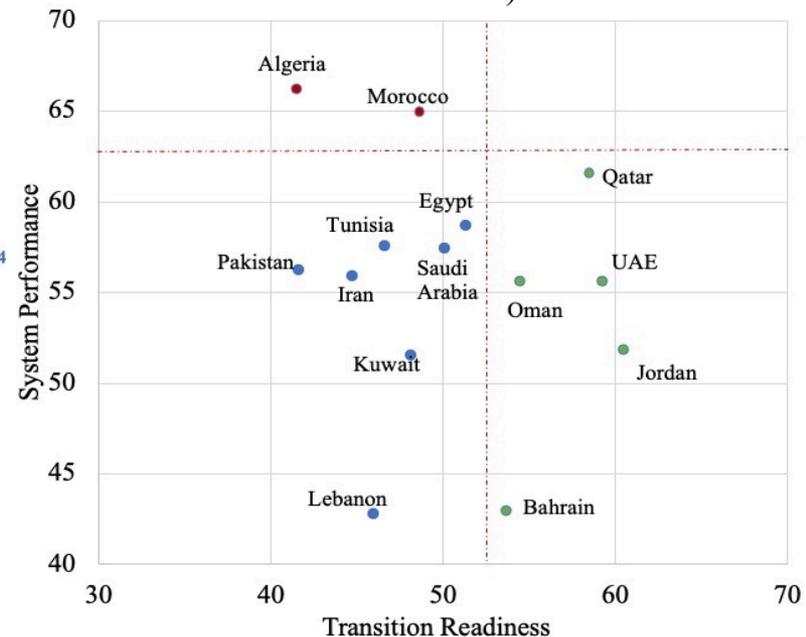
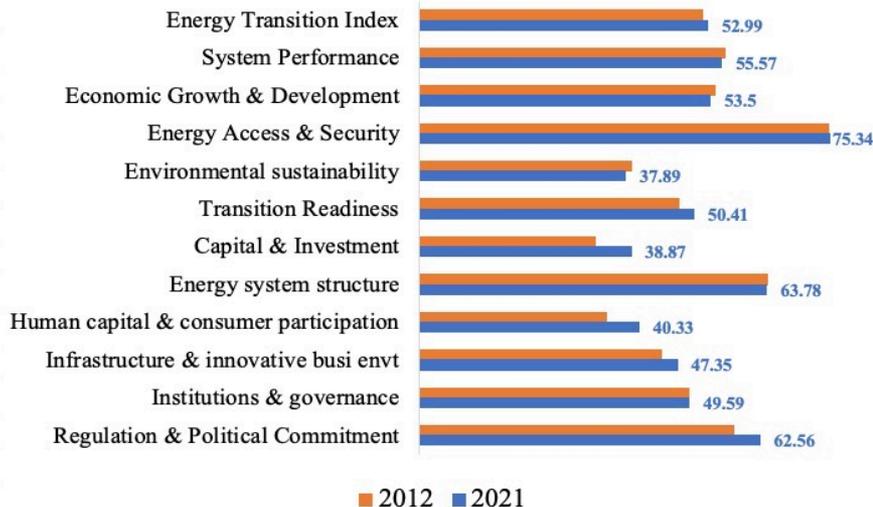
**Exposure to a low-carbon economy transition**



# WEF's Energy Transition Index ranks UAE just behind Qatar wrt energy systems & pathways to clean energy

- **UAE ranked 64th globally on WEF's latest Energy Transition Index (2021)** out of a total 115 nations, just behind Qatar at 53rd position. Lebanon ranked lowest in the Middle East region at 112th.
- Among the various components of the Index, **MENAP's average falls farthest from the world average in two:** environmental sustainability (37.89 in MENAP vs 61.32 globally) and capital & investment (38.87 vs 55.17). Of the 11 categories, **region is worse-off compared to 2012 (initial year of results) in 4:** system performance, environmental sustainability, energy system structure and economic growth & development
- The **chart on the right** shows no MENAP countries in the top-right quadrant (high transition readiness & well-performing energy systems). **4 of 6 GCC nations are in the "leapfrog" quadrant (green dots, high readiness but system performance below the mean);** two countries Algeria and Morocco fall among those with potential challenges (**red dots**, above-average system performance but readiness below the mean).

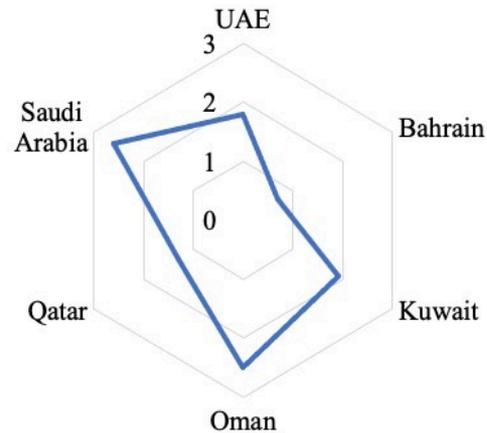
**Energy Transition Index in MENAP region  
2021 vs 2012**



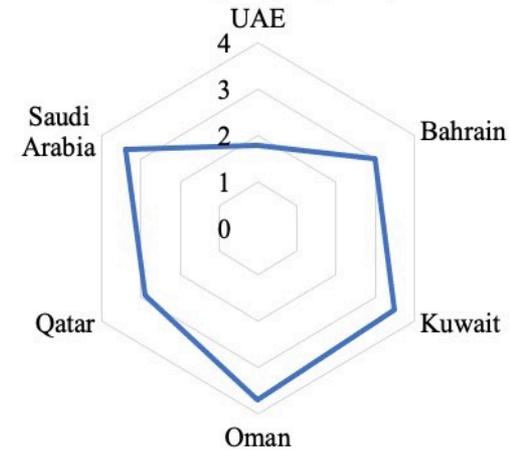
# GCC risk for climate-driven hazards is much lower than regional counterparts

- The climate-driven **INFORM Risk 2021 Index** is derived from 3 dimensions: climate-driven hazard & exposure, vulnerability and lack of coping capacity.
- GCC nations fare relatively better, scoring between 1.3 to 2.6 out of a total 10 (riskiest).** But, two scores are comparatively higher: Saudi Arabia's hazard & exposure score (largely due to conflict risk) and Oman's lack of coping capacity (institutional & governance indicators related to increasing the resilience of the society need improvement).

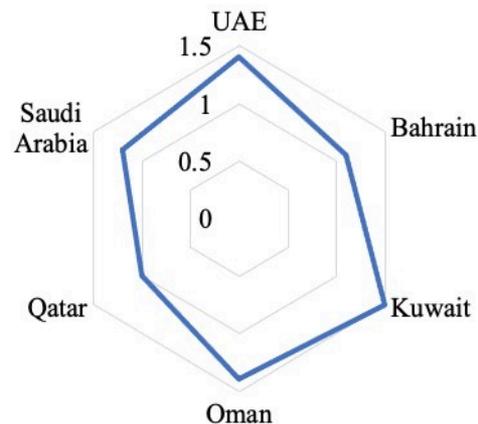
**INFORM Risk Index**



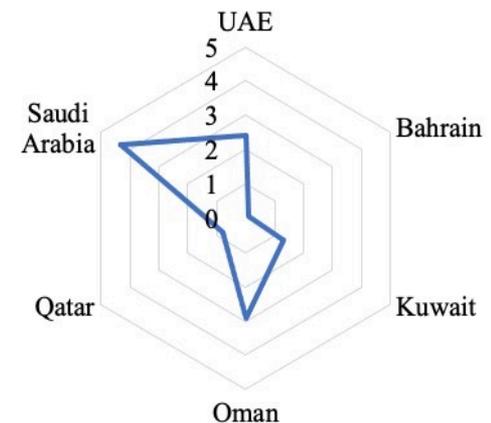
**Lack of coping capacity**



**Vulnerability**



**Climate driven hazard & exposure**



CountryName	HA	VU	CC	INFORM
Bahrain	0.6	1.1	3	1.3
Kuwait	1.2	1.4	3.6	1.8
Oman	2.9	1.4	3.7	2.5
Qatar	0.8	1	2.9	1.3
Saudi Arabia	4.3	1.2	3.4	2.6
United Arab Emirates	2.4	1.4	1.8	1.8

Source: INFORM Global Risk Index 2021.

<https://drmkc.jrc.ec.europa.eu/inform-index/INFORM-Risk>

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