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FLASH NOTE

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Net zero = the end of fossil fuels?

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The International Energy Agency (IEA) published a Roadmap to Net Zero 2050 and it shows that we have a long way to go if we want to reach the objectives of the Paris Agreement. The study confirms the idea that switching off fossil fuels and switching on renewable energy sources is, at the very least, oversimplistic.

While oil and gas companies are a major part of the problem, they will also have to be part of the solution to reach the net zero target. The efforts along the whole supply chain of fossil fuel extraction to the clean alternatives at the pump can make a difference and must be acknowledged, monitored and encouraged through active stewardship.

What is Net Zero?

Reaching Net Zero means that net global greenhouse gas emissions should be zero. In other words, **the level of carbon dioxide we pump into the atmosphere as a result of our activity must be captured back down to the ground**. The Paris Agreement has set two main objectives by 2050: net zero emissions and the limitation of a global temperature rise to 1.5 degrees Celsius compared to the pre-industrial revolution era (according to the United Nations in 2020, temperature has already risen by 1 degree Celsius over the last century).

The International Energy Agency (IEA) published a Roadmap to Net Zero 2050 and it shows that we have a long way to go if we want to reach the objectives of the Paris Agreement. The study shows that, taking into consideration all the climate commitments by countries globally, we are nowhere near close to zero. Some countries have pledged to net zero commitments without indicating clear pathways on how they intend to get there.

Why is it far more complex than some pretend?

The simple answer is that the entire energy system is very complex. It involves many players globally across the value chain. Furthermore, in order to avoid creating another problem by solving one, **the energy transition has to be inclusive**. The IEA report has put together a roadmap which, possibly, will lead to further restrictions, with certainly quite a few very headline grabbing points. For example: no new sales of fossil fuel boilers by 2025, no new coal mines or extensions from 2021, no new internal combustion engine car sales from 2035, and no new oil and gas fields approved for development, etc.

For some, these headlines may be easy to cheer as a victory against the fossil fuel industry but, in reality, very hard to implement uniformly across the globe. It is actually very encouraging to see the IEA recommendations regarding the increasing need to install renewable wind and solar energy by more than 1000 GW per annum by 2030, from a level of 220 GW installed in 2020 which was already a record breaking year.

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Why new technologies are critical?

The IEA also recommends that in order to get to net zero, we must proceed in an orderly manner. This means that over the course of this decade, the focus will be on significant installation of existing technology while investing in R&D for technologies that we have yet to develop. After 2030, new technologies will be critical and, to put it differently, **they are the sine qua non condition if we want to reach the net zero target**. For example: utility scale energy storage, hydrogen as an energy source, direct air capture, and storage to name a few.

Looking at the energy system globally, oil and gas will have a major role to play up to 2050, a very different role admittedly, as no new fields should be approved on top of the ones that are already approved to date. For oil, it is expected that demand by 2050 will drop by 75% compared to 2020, limiting the usage of the non-burning part to supply sub-industries like petrochemicals until there is an alternative solution. The maritime sector will also face infrastructure challenges due to the lifetime of the shipping vessels. As for gas, the IEA predicts that it will peak around the middle of this decade and, by 2050, it will drop by around 55% compared to 2020.

What are the consequences?

Shutting down oil and gas today might generate major social problems that are currently overlooked and ignored by the wider public. It is estimated that around 40 million people globally are directly employed by the oil and gas industry, while many regions within the developing economies thrive or rely solely on the oil and gas industry.

To achieve net zero by 2050, all the business sectors, governmental bodies, and consumer behaviour will need to change. It seems naïve and misinformed to call one sector 'bad' or 'dirty', hence **our preferred approach to finding a transitional solution that leads to a better outcome, inclusive for all.**

Oil and gas companies have a lot to bring to the table, if they acknowledge that their business model needs to evolve to support the energy transition. Said differently, they are a major part of the problem, but they will also have to be part of the solution to reach the net zero target. We are already seeing some European oil majors making commitments to this transformation. It may not be seen as moving fast enough by those who want these companies to completely divest away from their oil and gas business. However, their efforts along the whole supply chain of fossil fuel extraction to the clean alternatives at the pump can make a difference and must be acknowledged, monitored, and encouraged through active stewardship.

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SFDR[2] Fund Classification: Article 9

[1]According to EU taxonomy standards.

[2]Sustainable Finance Disclosure Regulation (SFDR) 2019/2088. For more information please refer to EUR-lex.

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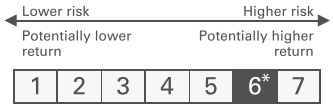
Recommended minimum investment horizon



Main risks of the Fund

EQUITY: The Fund may be affected by stock price variations, the scale of which is dependent on external factors, stock trading volumes or market capitalization.

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