

Memo to: all clients
From: Jannik Conrady
Subject: Saudi Arabia and renewable energy

I was sitting in the car with my father recently when a discussion about Saudi Arabia's oil production began to unfold, becoming increasingly in-depth.

It's actually a fascinating topic.

Saudi Arabia is, of course, primarily associated with oil, but how important is the country really in the global market, and exactly how is our energy supply structured?

The world's energy supply is at a critical turning point. Whilst fossil fuels such as oil, coal and gas still account for the largest share of global energy production, geopolitical and environmental challenges are driving a clear trend towards renewable energy. Interestingly enough, Saudi Arabia is adapting its strategy to maintain a leading role in this changing market. At the same time, China and India are emerging as global pioneers in the use of renewable energy.

It certainly seems as though things are actually changing.

To better understand the bigger picture, let's look at the energy sources, key players, their investments and possible future directions.

The Current State of Global Energy Supply: Main Sources and Key Players

The global energy supply is based on various pillars; here is a current breakdown of global energy sources (as of 2023):

- 31% oil, 27% coal, 24% natural gas
- 12% renewable energy (wind, solar, hydro)
- 6% Other

The ten largest energy producers:

- 1. China 22%, 2. USA 17%, 3. India 6% & Russia 6%
- Saudi Arabia 5%, Canada 3%, Indonesia 2.5%, Brazil 2%, Norway 1.5% & Venezuela 1.5%

These countries dominate primarily due to their high production capacities of oil, gas, coal and, to some extent, renewable energy. Norway and Canada in particular stand out for their leading role in the use of hydroelectric power.

In short: Fossil fuels are still by far the main component of the global energy supply. China and the USA are the driving forces.

When it comes to investments, plans and future direction, I focus primarily on Saudi Arabia, China, India and the USA, as together they account for over 50% of the world's energy supply. With India, China and the USA, we even have three of the top five economic powers. As the largest member of OPEC (OPEC member states account for approximately 40% of global oil production), Saudi Arabia also plays a central role in the global energy supply.

Investments & Future Plans

As part of Vision 2030, Saudi Arabia plans to meet 50% of its energy needs from renewable sources by 2030. Large-scale solar power plants and hydrogen projects are in the pipeline. Investments: an estimated USD 200 billion.

China is the global market leader in the production of solar and wind power plants. Its goal is to be carbon neutral by 2060. To date, China has invested over 800 billion USD in renewable energy.

India aims to meet 50% of its energy needs from renewable sources by 2030. By 2023, India will have invested over USD 100 billion in solar energy.

The US is also investing heavily in renewable energy, with the aim of becoming climate-neutral by 2050. Total investment in renewable energy currently stands at around USD 400 billion, mainly in wind and solar projects.

Probabilities of future developments

Fair enough: fossil fuels are highly likely to continue to account for a significant share of the global energy supply over the next two to three decades. The International Energy Agency forecasts that oil, gas and coal could still account for around 50% of global energy sources by 2050, unless drastic political measures are taken.

At the same time, it is almost certain that renewable energy will continue to grow rapidly, particularly in countries such as China and India, which are investing heavily in this sector. By 2030, renewable energy could potentially meet 30–35% of global energy demand, which would represent a massive increase.

This is also interesting from an investment perspective.

According to the MSCI World Energy Index, the energy market has performed well over the last five years (+56.58%). Following the MSCI World Index, the global market as a whole has experienced rapid growth (+79.39% over five years). Meanwhile, renewable energies have seen only modest growth over the same period (+7.97%), and have even performed negatively over the last three years (-29.38%).

Logistically, the key challenge with fossil fuels is managing physical transport and storage. With renewable energies, once the electrical energy has been generated and transported, the key challenge is to ensure successful integration into the electricity grid that meets storage requirements. New challenges arise particularly in relation to the reliability and stability of supply, whilst fossil fuels require well-developed but expensive and geopolitically sensitive transport networks. The success of renewable energies will also depend heavily on how storage options develop.

To sum up

From a long-term perspective, the global energy supply is at a turning point. Although fossil fuels still dominate, renewable energies are becoming increasingly important, driven by ever-growing investment in countries such as China, India and the USA. Saudi Arabia, traditionally a key player in the oil sector, has also begun to diversify its energy policy as part of Vision 2030 and is investing heavily in renewable energy.

Over the coming decades, the role of renewable energy will continue to grow, with the aim of meeting global energy demand in a more sustainable manner. Countries such as China and India could have a significant influence on the future of energy production, whilst geopolitical uncertainties and technological developments will shape the dynamics of the market.

And the lagging (equity) markets, down by 29.38%, could potentially enjoy a strong rebound as an asymmetric investment.

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