



Energy Crossroads

Europe's energy re-think

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- ◆ The war in Ukraine could lead to a generational shift in European energy policy ...
- ◆ ... meaning there will be important trade-offs as Europe balances climate objectives with energy security
- ◆ We take a look at Europe's energy headache

Energy is taking centre stage. Energy is fast becoming the most important policy area for world economies with a multitude of factors from supply disruptions, geopolitics, inflation and climate objectives all at play – triggering short – as well as long-term energy considerations.

Could the security 'shock' risk kicking climate targets to the kerb? A burning question will be if, and how, Europe's goal to be the leading region for climate action can be squared with its new, and urgent, need to secure its short-term energy needs.

Or could the war serve as a climate-action accelerator in Europe? The long-term goal of removing risks from fossil fuel exposure – such as price volatility, supply uncertainty and geopolitical counterparty risk – is, in our view, consistent with the underlying goals of Europe reaching 'net zero' emissions by 2050, albeit the two may appear to be at odds in the shorter term.

Options at hand; but change on the ground will be hard to implement overnight. Europe cannot replace all of its Russian natural gas without significant disruption; it currently represents ~40% of European consumption. Diversifying supply is an option, reducing consumption is also an approach – advocated recently by the IEA. Renewables, hydrogen, nuclear energy, energy storage and efficiency measures can all help to wean Europe off natural gas but are not overnight, let alone like-for-like, fixes – reflecting the structural rigidities in the European energy complex.

This is our latest report on the Energy Transition theme. If you want to subscribe to any of our nine big themes, [click here](#).

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A new energy world

- ◆ Energy price spike and rising geopolitical tensions have brought security of supply in Europe to the forefront
- ◆ Reducing reliance on Russian natural gas is now a key objective, but some short-term fixes could run counter to climate goals
- ◆ We take a look at Europe's energy headache

Can Europe secure its energy supply and stick to climate goals?

Energy trilemma conundrum bites back – where to place priority?

All modern energy policy makers want in life is three things

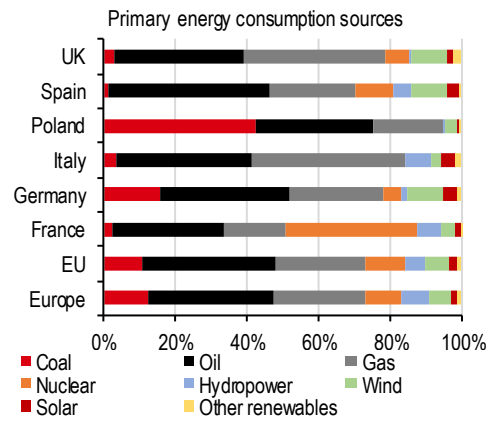
- ◆ Reliable supply
- ◆ Affordable cost
- ◆ Falling carbon intensity

All ideally achieved in a controlled and stable manner. But achieving one, may exacerbate the other; eg. a given energy supply could be secure and cheap, but have high carbon intensity (say coal), or it could be low-carbon and reliable but expensive (say nuclear).

The logical solution is a portfolio of choices that distributes the risks of each of the three options so that none can act as an Achilles' heel. However, this is easier said than done, and many energy systems around have a high degree of dependency on a single, potentially imported, energy source and that carries counterparty actor risk. In Europe this is most visible with natural gas – characterised by rigid infrastructure (pipelines), widespread use in continental European industry and home heating, the marginal price setting fuel in many European markets, and crucially, a dominant supplier; Russia.

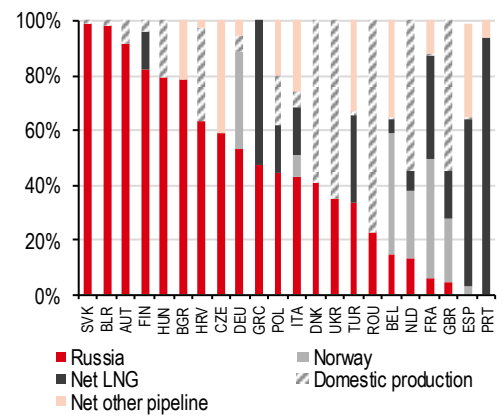
The priority in the EU has arguably been placed on the need to reduce carbon emissions in recent years, but the current crisis has propelled security and cost to the forefront.

Europe is still heavily reliant on oil and gas for its energy consumption ...



Source: Our World in Data, 2020 data

... and much of this gas currently comes from Russia



Source: BP Statistical Review of World Energy, Refinitiv Eikon, IEA, Rystad, HSBC estimates. NB: "Other pipeline" in some cases (e.g. Poland, Czech Republic and others) includes gas originally from Russia and imported through other countries. For Netherlands and UK, we assume the breakdown of gas exports by source is similar to gross supply ex-domestic production, as there is no data on re-exported gas volumes split between Norway, Russia and LNG. Data from 2020.

A shock to the system can jolt thinking, sometimes drastically

Energy shocks; if severe enough, and their ramifications firmly felt in the political / public domain, can shape policy and other decisions for years and decades to come. They can accelerate trends already in motion, cause unforeseen U-turns or thrust previously fringe ideas to the forefront; a prime example is oil in the 1970s.

Climate change and the need to decarbonise the energy system has been the dominant narrative, particularly in Europe, in recent years; the UK held the most anticipated climate conference in years just six months ago. However, with security of supply and geopolitical risk now overtaking emissions targets as the primary – and crucially most urgent – energy issue in Europe, this has the potential to cause radical shifts in policy priority.

Near-term energy needs may supersede longer-term commitments

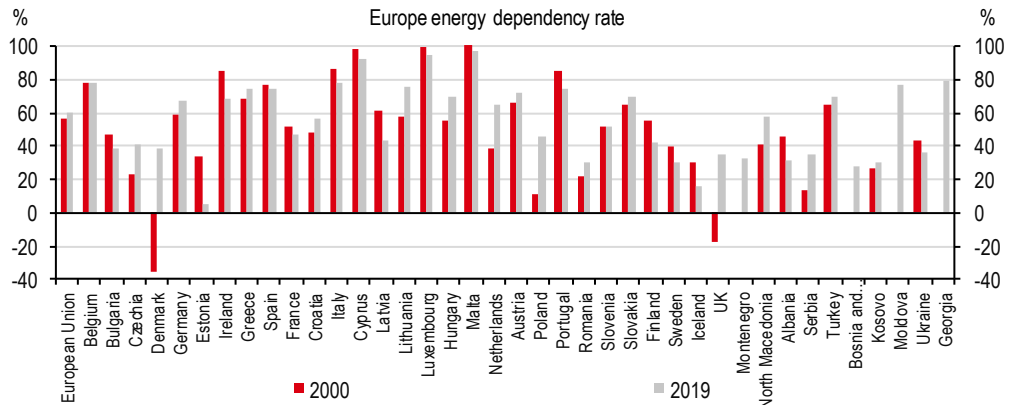
The 'toolkit' in an energy crisis differs markedly to that of more stable times. In essence, due to the perceived immediate threat of a shock on populations, industry or even political stability, the set of actions in such a scenario are typically geared towards measures that will offer near-immediate relief to the party under stress. This can, in instances, cause longer-term and more structural plans to lose out on policy and funding support if it is not sufficiently aligned with the new, and more pressing objective (in this case energy security).

Our recent look at how the topic of climate change fares in an energy shock environment highlighted the fact that, over time, deeper decarbonisation and broad renewables deployment can enhance energy security, and reduce import dependency. This, to a degree, makes the decarbonisation agenda, and that of enhancing energy security as complementary in the medium-to-long term; even if they are potentially at loggerheads in the more immediate term.

Europe is looking to turbocharge the transition as the longer-term solution

There is currently no end in sight for the war in Ukraine, however it could be a catalyst that propels the energy transition in Europe (where political conviction to act on climate is high) forward, and faster than previously, even if some undesirable short-term measures need to be taken. The long-term goal of removing risks from fossil fuel exposure – such as price volatility, supply uncertainty and geopolitical counterparty risk – is, in our view, consistent with the overarching European goal to reach 'net zero' emission by 2050, albeit the two may appear to be at odds in the shorter term.

European energy imports dependence has increased in the last 20 years ...



Source: Eurostat

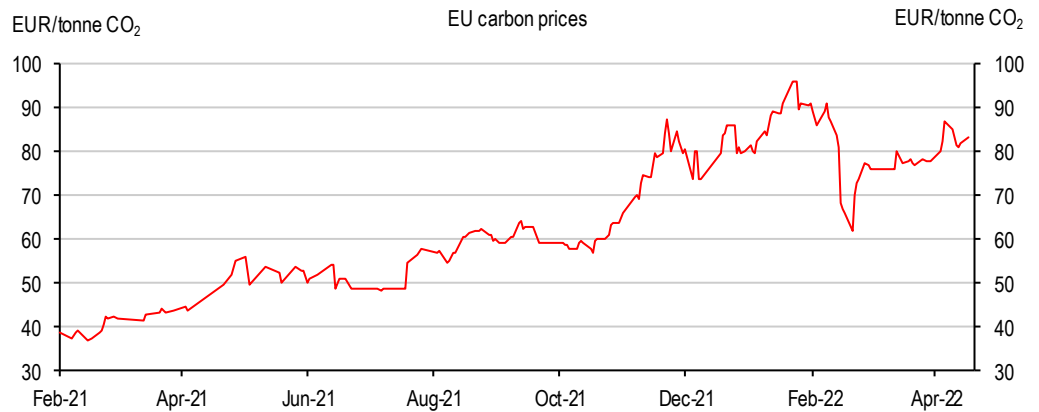
Long-term goals, but short-term constraints: a deadline of next winter for gas, but also eyeing 2030 targets (Fit for 55 and net zero 2050)

Europe already has ambitious targets; can they be stretched further?

Whether Europe’s climate change targets (amongst the most ambitious anywhere), and the accompanying actions, would effectively be shelved in the face of energy security was a pertinent question that the markets faced when Russia invaded Ukraine in late February. Namely, could the EU realistically stick to its medium (Fit for 55) and longer-term (net zero 2050) climate targets whilst still taking meaningful measures to diversify its natural gas use in the very short term (i.e. by next winter)?

This uncertainty – over the level of conviction, rather than the feasibility – was evident in sentiment around the European carbon price. As the potential for a weakening in stringency with the EU might pursue the climate agenda rose, carbon prices (a proxy for climate policy) fell sharply – as shown below.

European carbon price (EUR/tonne CO₂) volatility mirrored market concerns about EU conviction on climate targets ...



Source: Bloomberg

Europe maintains energy security and energy transition are complementary

The REPowerEU plan – published on 8 March 2022 – allayed many of these initial fears, as it re-affirmed the EU’s commitment to pursue longer-term decarbonisation in conjunction with addressing energy security concerns – and in doing so crucially placing them as complementary objectives, rather than mutually exclusive. This, as our Utilities analysts point out, does not necessarily mean that Europe’s ambitious plan to curb Russian gas in the short term, and decarbonise even faster in the medium term, is achievable. Bottlenecks in ‘new’ energy supply

chains, rigidities in natural gas supply and use, as well as the early-stage nature of some of the possible alternative energy sources (eg. green hydrogen) all pose risks to the plan.

Actions in the very short term, are as much geared towards curbing the need to draw on Russian gas – but may not in itself lead to lower European gas demand; i.e. a diversification of supply sources rather than the structural reduction in gas demand that is needed for decarbonisation. Other medium-term measures could include options that were previously discounted on climate (or other grounds) such as the increased use of domestic coal for electricity generation, extensions to ageing nuclear plants and the building of new LNG import / receiving terminals.

What governments have said:

The energy crunch does not affect all countries equally

Crucial to mention, in our view, that European countries don't all face an energy crunch of the same severity, nor all at the same pinch points. For instance, not only do countries have different levels of exposure to Russian oil and gas in the first place, they also have different options for how to reduce dependency. The sun does not shine and the wind does not blow at the same rate across Europe, and politics will also play an important role. For instance, France has for decades relied on nuclear energy and will continue to do so, but Germany has been quite clear that nuclear will not place a role in its energy transition.

The German economy minister (a Green party politician) has said "there are no taboos on deliberations" – leaving the door open to an extended phase of non-renewables, whilst also outlining plans to bring forward Germany's goal of 100% renewables power to 2035 from 2040¹. In the same week he also said "the only forms of energy that don't belong to anyone are wind and solar"² all whilst Germany plans on building LNG terminals in Brunsbuettel and Wilhelmshaven³ – making it difficult to determine the road Germany will follow. The simple truth is there is no easy answer.

Germany's coalition government has ruled out prolonging the life of the country's remaining nuclear sites and is turning to LNG terminals to reduce the amount of Russian gas imports. Germany has signed a long-term agreement with Qatar for the supply of LNG, though the details on quantities are yet to be announced this shows the direction of travel for Europe's largest economy⁴.

Germany, reliant on Russian energy, is already taking big steps to reduce dependence

Germany has been searching for ways to replace Russian oil from supplies from other sources in order to cope with any EU embargo on Russian oil imports. Germany has previously set a target to end Russian oil imports by the end of the year but has been resistant to an immediate ban from the EU. Before the war began Russian oil made up one third of German supply, in March this was reduced to 25%, and by the end of April this was only 12%⁵. This clearly illustrates the intentions of the EU in the medium to long term with regards to Russian energy imports.

However, as the Ukraine crisis escalates and it becomes increasingly difficult for Europe to justify Russian energy imports we could see the EU look to ban Russian energy imports earlier than the end of the year. We have also seen that Russia may look to shut off gas deliveries, as seen in Poland and Bulgaria on 27 April, due to their refusal to pay in roubles. The decision raises risks that supplies to other countries could be cut off when the next payments are due in May.

¹ Germany Brings Forward Goal of 100% Renewable Power to 2035, Bloomberg, 28 February 2022

² Climate envoy to raise energy security, climate on US visit, Yahoo News, 28 February 2022

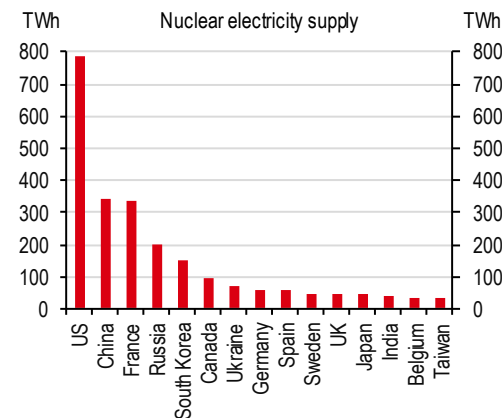
³ Germany 'prepared' if Vladimir Putin turns off Russian gas, The Telegraph, 2 March 2022

⁴ Germany says it has clinched long-term gas supply deal with Qatar, Financial Times, 20 March 2022

⁵ Germany aims to find alternative to Russian oil within days, Reuters, 26 April 2022

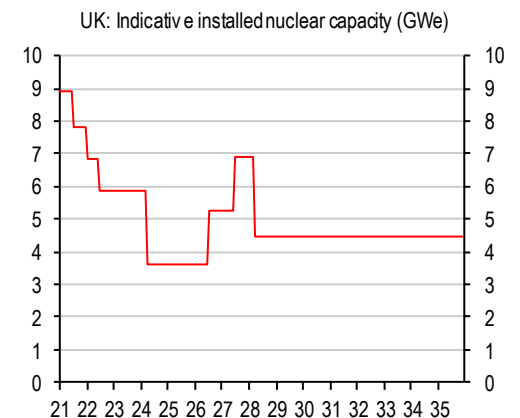
Large-scale supply disruptions to major European gas buyers are not our base case, but the risks of supply disruption are now rising. Of all major European gas importers, Germany stands out as being most at risk of disruptions. If gas deliveries to Europe were cut off, the economic impact would be most severe for Germany given its high dependence on gas as primary energy (26%) and its reliance on industrial output. The hit to Germany's GDP is estimated at between 3.5% and 5%.

Nuclear energy has proven a significant energy source in France ...



Source: IAEA, data from June 2021

... but at present the UK's nuclear capacity is dwindling



Source: Department for Business, Energy, and Industrial Strategy, HSBC

It is still too early to say exactly how the path to energy independence will unfold, if at all. In UK the business secretary Kwasi Kwarteng came out at the beginning of the Ukraine crisis and announced onshore fracking for gas is not an option and the UK will continue to push deeper into renewables and nuclear power. However, following the announcement that the UK would join the US in the banning of Russian oil imports⁶ (US also banning gas imports) the British government re-opened the possibility of a return for domestic fracking⁷.

Oil and gas constitutes about 75% of the UK's energy supply, meaning that despite little direct exposure to Russian gas the UK has some way to go in broadening its mix of energy sources. Boris Johnson has even gone as far as to suggest the West should be given a "climate change pass" as it weans itself off of Russian gas and transitions to nuclear and renewables⁸.

The UK's energy plans are beginning to take shape. The North Sea regulator will hold its first oil and gas licensing round since 2020 this year and the CEO of the Oil and Gas Authority has said that licences could be issued on existing discoveries that "are pretty much ready to go"⁹. The UK is also drawing up plans for a fivefold increase in nuclear power capacity by 2050, through the construction of at least half a dozen big new stations between 2030 and 2050¹⁰.

The UK's energy strategy is ambitious but ignores some key policy areas

On 6 April the UK government announced its 'British Energy Security Strategy', which sets out how Great Britain plans to accelerate the deployment of wind, new nuclear, solar, and hydrogen, whilst supporting the production of domestic oil and gas in the nearer term. We note that this is an update on existing targets and appears ambitious in terms of timescale,

⁶ War in Ukraine: West hits Russia with oil bans and gas curbs, BBC, 9 March 2022

⁷ Fracking back on the agenda as Boris Johnson blocks imports of Russian oil, The Telegraph, 8 March 2022

⁸ Boris Johnson's call to relax green target, The Times, 7 March 2022

⁹ UK looks to North Sea oil and gas in race to secure domestic energy supplies, Financial Times, 21 March 2022

¹⁰ Boris Johnson in 'gung ho' push for more nuclear power as energy crisis starts to bite, Financial Times, 20 March 2022

expensive financially, technologically challenging in terms of the most significant element, nuclear, and a missed opportunity in terms of energy efficiency.

Efficiency measures have worked in the UK, but are conspicuously absent from this policy document, and heat pumps remain prohibitively expensive. For HSBC's utilities analysts, the focus needs to be centred on addressing planning delays, building storage, and facilitating more electricity infrastructure (including interconnectors) to ensure a far more seamless market than is currently the case.

And there is considerable uncertainty on UK nuclear targets

There is a particular focus on nuclear where the UK targets up to 24GW of nuclear capacity by 2050, which would account for a quarter of estimated demand. With the high cost of the EPR (GBP6-7m/MW) and the risks of cost overruns and delays from the sheer scale, technical complexity, and lack of experienced engineering talent for large nuclear projects, HSBC's Utility analysts believe that the UK needs to find smaller, cheaper reactors for the remaining nuclear capacity targeted by 2050, which we roughly estimate at 10GW with 75TWh of output. As such, one could state that there is considerable uncertainty as to the ability of the UK to achieve its 2050 nuclear target.

Signs are already emerging that Europe will face some tough trade-offs between energy security and energy transition. At the same time that the Ukraine war poses deep questions on energy security, it is important to remember the UN in the same week released a report saying "current events make it all too clear, our continued reliance on fossil fuels makes the global economy and energy security vulnerable to geopolitical shocks and crisis".

Could renewables become the cheap and reliable energy sources oil and gas have been for so long

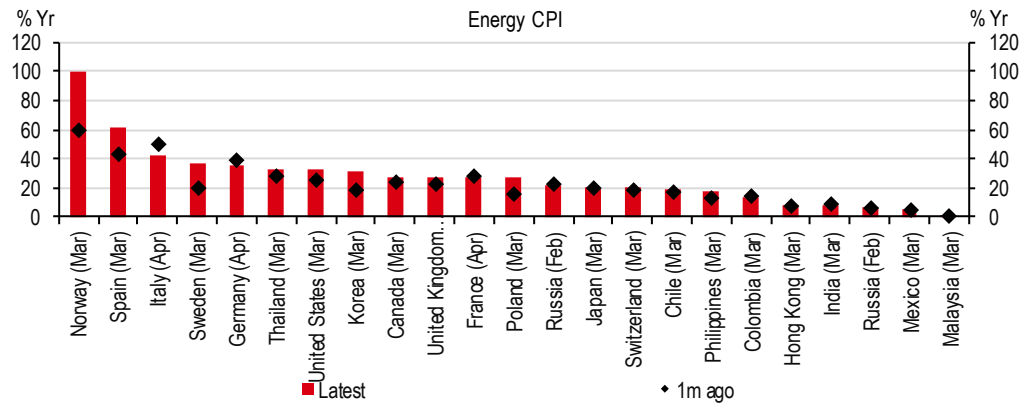
This is an intriguing characterisation. For years oil and gas were the 'bad' energy sources but were also the cheap and more importantly reliable energy sources. Now that their cheap and reliable status is threatened, is this the start of a new era where renewables are not just the 'good' energy sources but also become the reliable ones?

Energy – the headache for economists and central banks

Energy has been causing headaches for economists for months

HSBC's economists have written extensively about energy prices driving inflation, even before the recent geopolitical escalations, the annual rate of energy inflation had more than doubled in UK, Germany, and Italy – these figures look set for further steep rises in the coming months.

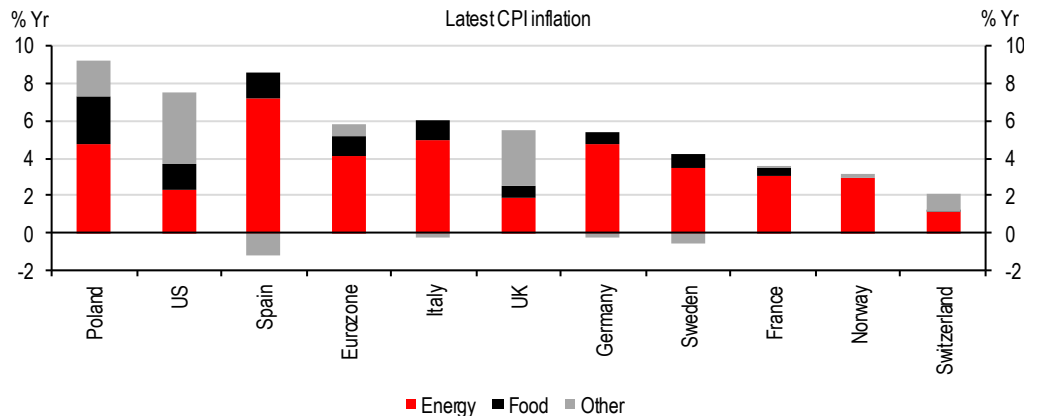
Inflation has surged globally in recent months ...



Source: Refinitiv Datastream
Note: Parentheses show the latest month that the data is available

HSBC's economists had calculated that even if oil prices crossed USD100/bbl, there would still be a lower rate of change in energy prices than observed in early February. And in order for the annual increase in the oil price to be the same at the end of 2022 as it was as of 4 February 2022, oil prices would need to reach USD125/bbl. As of 4 May 2022 oil prices stood at USD107.81 /bbl¹¹.

... and in much of Europe energy is a major driver



Source: HSBC, Refinitiv Datastream. Note: Data are for March 2022 for all apart from eurozone and EU member states (April 2022).

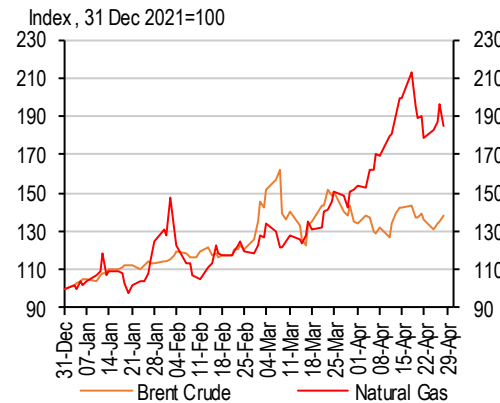
'Team transitory' did not see the energy price spikes coming

This poses big questions for economists, particularly at the world's major central banks, who had long been calling inflation 'transitory' – driven by the pandemic, supply-chain shortages, and a surge in the demand for goods driven by the lifting of COVID-19 lockdown mandates – all temporary factors that would fall away as the world returned to a sense of normality.

¹¹ US Stocks Close Sharply Higher as Investors Digest Powell's Comments, Wall Street Journal, 4 May 2022

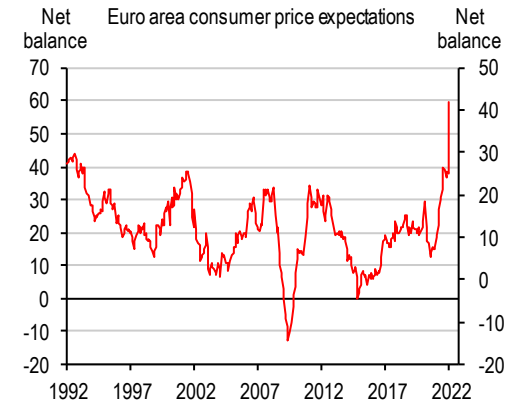
Policymakers did not anticipate the surge in energy prices towards the back end of 2021 and early 2022 and are now faced with massive trade-offs between curtailing inflation and hampering economic growth at a time of crisis.

Oil and gas prices have surged and experienced significant volatility ...



Source: Refinitiv Datastream

... which has driven inflation expectations to multi-decade highs among consumers



Source: Refinitiv Datastream

HSBC economists estimate that a 10% rise in wholesale gas prices would add up to 0.3ppts to eurozone inflation. And in the UK even if wholesale gas prices held steady our year-end inflation forecast would be around 0.5ppts higher than the central case. We have already seen gas prices surge far in excess of 10% and for now at least there seems little prospect of significant moderation.

Economists appear concerned energy prices may feed into inflation expectations

The Chief Economist at the BoE has warned of energy prices feeding into longer-term pricing decision and raising inflation expectations in the long run¹². Whilst ECB Governing Council members have warned that the Ukraine crisis could lead to stagflation and that the stagflation scenarios ahead of us depend on the duration of the war and the fiscal response of European governments¹³. With central banks exhausting their arsenal in response to the pandemic, it looks like it will be left to fiscal policy to lift the economy and take some pressure of the ECB.

¹² BoE's Mann says high energy prices must not feed into price expectations, Reuters, 1 March 2022

¹³ ECB's Centeno warns of 'stagflation' from Russia-Ukraine conflict, Reuters, 2 March 2022

So what are the options?

Reduce, diversify, get more efficient and use more renewable energy

The toolbox at hand offers some short- and medium-term measures

Europe is faced with an unenviable task – tackling the wide use of a rigid and deeply embedded energy source, at short notice. The EU will want to ensure that its actions achieve two aims, first to reduce the draw on Russian natural gas, but second to ensure this does not compromise progress towards long-term emission reductions targets. As we mentioned above, the two goals are likely to want to be seen as complementary, rather than competing, by policy makers.

The tools available to Europe are numerous but cannot deal with the issue in its entirety and have the potential to cause unwanted side effects. Some measures are more short-term orientated (eg. diversifying natural gas supply, increasing storage levels and demand management) whereas others are medium-to-long term and more structural in nature (eg. electrifying end-uses of natural gas, building out of renewables and accelerating energy efficiency efforts).

Some broad avenues of action include the following:

- ◆ **Renewables:** Accelerating the deployment of renewable energy generation in Europe is a way to reduce the role natural gas has in electricity markets in particular, as well as other electricity based substitutes to fossil fuels (like electric vehicles).
- ◆ **Green hydrogen:** Ramping up use of hydrogen made using renewable energy is a way to produce an energy source that acts and feels more like natural gas but that will be domestically produced, and emit no CO₂. However, so-called 'green' hydrogen suffers from cost and scale issues.
- ◆ **Energy efficiency:** Reducing Europe's primary energy consumption (amount of coal, natural gas and oil) without having to drastically alter end energy use (heating homes, powering industry etc) is a key lever to pull. However, this can take time to gain sufficient traction.
- ◆ **Nuclear:** A bastion of energy security, but a currently unloved fuel choice in Europe. New reactors take years to plan and develop, but accelerated phase-outs could be delayed.
- ◆ **LNG imports:** Substituting pipeline-supplied Russian natural gas for seaborne cargoes from other supplier (eg. US, Qatar) will need new receiving terminals to be built.

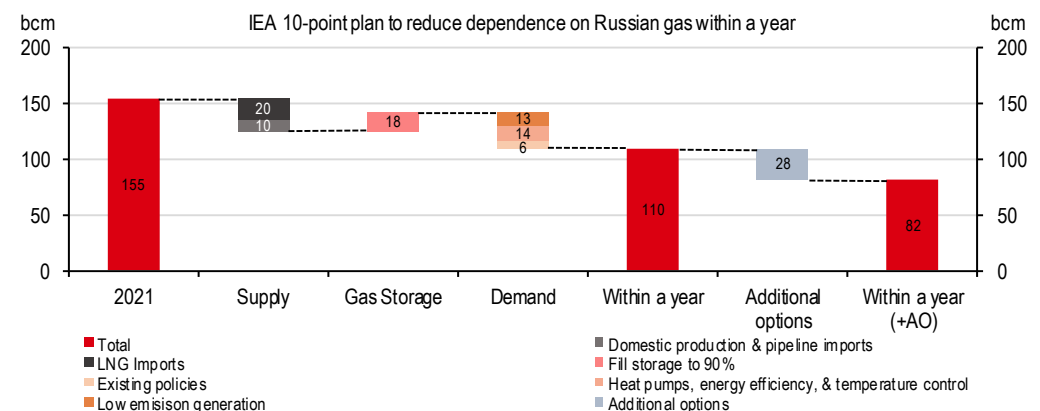
Plans to reduce dependency on Russian oil and gas

We explore three major energy proposals, two from the IEA and one from the European Commission to reduce dependence on Russian oil and gas. Consisting of suggestions to reduce demand for energy as well as supply alternatives.

IEA 10-point plan for gas¹⁴:

The IEA also outlined further measures to deepen gas consumption cuts, but at the cost of higher emissions

The IEA has set out plans to cut Russian gas imports by nearly a third within 12m ...



Source: HSBC, IEA

In the wake of the energy crisis, the IEA set out a 10-point plan which would lead to a more than 50bcm reduction in Russian gas imports within one year; a cut of about one-third. The IEA also set out additional policy options which go further and faster to limit near-term reliance on Russian gas, but at the cost of EU emissions reductions. If Europe opted for these additional measures then near-term Russian gas imports could be reduced by more than 80bcm, approximately half of current levels. They include switching away from using gas in the power sector via an increased call on Europe's coal-fired fleet or by using alternative fuels (primarily liquid fuels).

- No new gas supply contracts with Russia
 - Gas import contracts with Gazprom of up to 15bcm per year expire this year. Overall, contracts covering close to 40bcm per year expire by the end of the decade.
- Replace Russian supplies with alternative gas sources
 - IEA estimates production inside the EU and non-Russian pipeline imports could increase by up to 10bcm within a year. With an additional 20bcm increase coming from non-Russian LNG imports.
- Introduce minimum gas storage obligations
 - 90% of working storage capacity by 1 October 2022 are necessary to provide a buffer through the heating season i.e. an additional 18bcm higher than 2021.
- Accelerate the deployment of wind and solar projects
 - The IEA believes this could bring down gas demand by 6bcm.
- Maximise generation from bioenergy and nuclear
 - Postponing/cancelling reactor closures and re-opening reactors could reduce gas use by 13bcm.

¹⁴ A 10-point Plan to Reduce the European Union's Reliance on Russian Natural Gas, IEA, 3 March 2022

6. Cushion consumer prices
 - Make available EUR200bn to cushion impacts on vulnerable groups.
7. Replace more boilers with heat pumps
 - Reduces gas use for heating by 2bcm in a year.
8. Drive energy efficiency measures in buildings and industry
 - Reduces gas consumption for heat by close to 2bcm within a year.
9. Thermostat controls
 - Turning down the thermostat in buildings by 1°C would reduce gas demand by 10bcm a year.
10. Diversify grid flexibility options
 - Enhanced grids, energy efficiency, increased electrification and demand-side responses, dispatchable low emissions generation, and various large-scale and long-term energy storage technologies alongside short-term sources of flexibility such as batteries.

Additional options: The IEA estimate that a temporary shift from gas to coal- or oil-fired generation could reduce gas demand for power by 28bcm before there was an overall increase in the EU's energy related emissions.

- ◆ An additional 120 TWh in coal-fired generation could cut gas demand by 22bcm in one year.
- ◆ A quarter of the EU's fleet of gas-fired power plants is capable of using alternative fuels. This could displace another 6bcm of natural gas demand a year.

European Commission plan¹⁵:

The EC plan is more aggressive than the IEA proposals

The IEA plan, if enacted in full (including the additional options) would still result in a modest decline in overall emissions. The IEA believe cutting Russian gas imports much beyond their plans would come at the cost of an overall increase in emissions and thus at the expense of their energy transition targets. Nonetheless, the European Commission has proposed a plan to cut EU demand for Russian gas by two-thirds before the end of the year. A significantly more aggressive plan than the IEA's.

Unsurprisingly the Commission adopts a number of the IEA proposals but also outlines additional measures. EU State Aid rules will allow member states to provide short-term support to companies affected by higher energy prices and the EU will consult member states on the needs and scope of a new State Aid Temporary Crisis Framework. The Commission proposes larger volumes of biomethane and renewable hydrogen production and imports, whilst addressing infrastructure bottlenecks.

The 'Fit for 55' proposals already reduces annual fossil fuel consumption by 30%, equivalent to 100bcm by 2030. With the measures set out in the RePowerEU plan, the EU can gradually remove at least 155bcm of fossil gas use, the equivalent to the volume imported from Russia in 2021. The Commission's plan is a little bit light on detail and explicit targets for how this additional cut in Russian exports will be achieved, especially without some kind of pause of the energy transition targets. However, the plan does double the EU ambition for biomethane, to

¹⁵ RePowerEU: Joint European action for more affordable, secure, and sustainable energy, European Commission, 8 March 2022

produce 35bcm per year by 2030. As well as laying out plans to develop infrastructure and storage facilities to replace Russian gas with imported and domestically produced renewable hydrogen. The plan also talks about speeding up renewables permitting to minimise the roll-out of new projects and infrastructure improvements.

However, the IEA plan provided more clarity than the EC proposal

The EU will need to set out more clearly and precisely in the coming weeks and months exactly how the cuts over and above the IEA plan will be achieved. The IEA seem to have a clearer plan for a 33-50% cut in Russian gas imports “within one year” without increasing overall emissions. The Commission will need to spell out in similar detail how it expects to get to a 67% reduction by the “end of the year”. The subtle difference in language and targets makes quite a big difference to the plausibility of the plans, unless of course climate targets are relaxed.

Our utilities analysts point out that the EU mentioned figure of 50bcm of additional LNG annually from US, Qatar, Egypt, and West Africa by end-2022 seems unrealistically high as Europe would have to pay extremely high prices to attract LNG cargoes away from Asia. The report would amount to an additional 30GW of wind capacity and 50GW of solar capacity by 2030, a more than 10% annual average growth than before versus already highly ambitious targets. We think the greatest emphasis has to be on storage via green hydrogen and batteries as well as hydro storage; but even this will take time. The EU already had very ambitious 2030 hydrogen targets and plans to double this target by 2030 seems highly unrealistic.

IEA 10-point plan for oil¹⁶:

The IEA oil plan focuses on reducing demand for energy overall

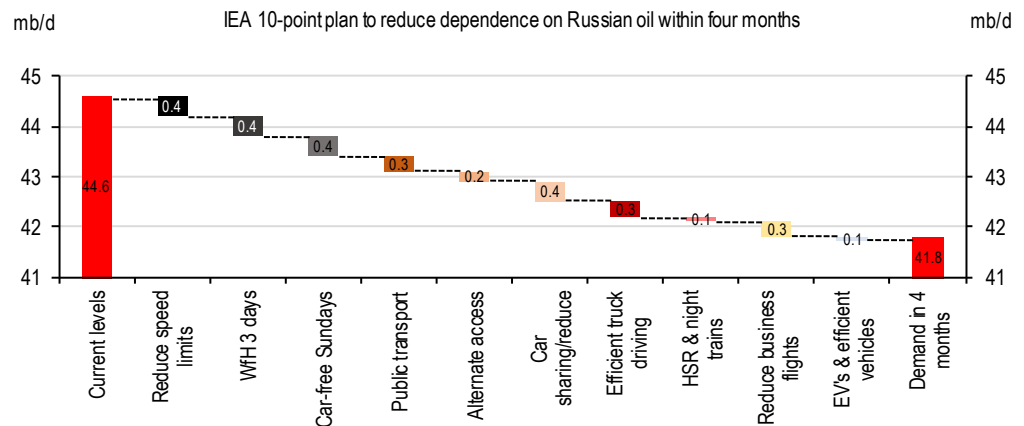
The IEA’s latest Oil Market Report¹⁷ identified that up to 3mb/d of Russian oil output could be shut-in by April as sanctions take hold and buyers shun exports. In the absence of a substantial increase in OPEC+ oil supply Europe is having to look at options to cut demand for oil in the short term. As a result, the IEA has come up with 10 immediate actions that can be taken to reduce oil demand before the peak demand season. Implementing all of the measures could cut oil demand by 2.7m barrels a day in the next four months.

It may prove politically difficult to enact

To an extent the plan feels a bit utopian, in that it is unlikely European consumers will accept all of the proposals and governments may be reluctant to mandate the proposals. Some proposals, such as working from home up to three days a week where possible, go directly against current government positions of encouraging workers to return to the office. Unlike the IEA proposals for natural gas, they do not include options on supply, implying drawing down Russian oil dependence pay prove more difficult than natural gas. Particularly as OPEC has seemed reluctant to start turning the taps on.

¹⁶ A 10-Point Plan to Cut Oil Use, IEA, 18 March 2022

¹⁷ Oil Market Report – March 2022, IEA, 16 March 2022

The IEA has set out plans to cut oil demand by 2.7m barrels a day in the next 4 months ...


Source: HSBC, IEA

1. Reduce speed limits on motorways by at least 10km/h
 - Around 290kb/d can be saved in the short term with a 10km/h reduction on motorways for cars. A further 140kb/d can be saved if heavy trucks do the same.
2. Work from home up to three days a week where possible
 - One day of working from home can avoid around 170kb/d of oil use.
3. Car free Sundays in cities
 - Avoids around 380kb/d if implemented in large cities every Sunday.
4. Make public transport cheaper and incentivise micro-mobility, walking, and cycling
 - Can avoid around 330kb/d of oil use.
5. Alternate private car access to roads in large cities
 - A reduction of around 210kb/d if applied two days per week in large cities with good public transport options.
6. Increase car sharing and adopt practices to reduce fuel use
 - An increase of c.50% in average car occupancy across advanced economies in 1-in-10 trips and adopting best-practices to decrease car fuel use can save around 470kb/d of oil in the short term.
7. Promote efficient driving for freights trucks and delivery of goods
 - Can avoid around 320kb/d of oil use in the short term.
8. Use high-speed and night trains instead of planes where possible
 - Avoids around 40kb/d oil use in the short term.
9. Avoid business air travel where alternative options exist
 - Avoids 260kb/d oil use in the short term.
10. Reinforce the adoption of electric and more efficient vehicles
 - Avoids more than 100kb/d of oil use. Sustained action on supply chains and policy support can help secure further savings.

The IEA emphasises that reducing oil use must not be a temporary measure, not only to meet climate goals, but now also to become energy secure. The IEA identifies several measures that can put oil demand into noticeable decline in the medium term:

- ◆ Prioritise support to EVs and unblock supply chains
- ◆ Significantly raise the ambition of fuel economy standards for road vehicles
- ◆ Boost the supply of alternative fuels
- ◆ Accelerate the replacement of oil boilers with heat pumps and ban installation of new ones
- ◆ Increase plastic waste collection, re-use, and recycling

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