

The Covid crisis will delay but not derail the energy transition



The world is grappling with an unprecedented health crisis that has triggered the [worst](#) economic recession of the century. Be it manufacturing, supply chain, exports or project execution, the entire business ecosystem experienced a sudden collapse. Energy demand, which is directly linked to economic activity, also contracted. But not surprisingly, the great lockdown had a more dramatic impact on oil demand than electricity. For instance in the UK, the electricity consumption is down by around [13%](#), while oil demand could have roughly decreased by [half](#).

Due to lower demand, many power systems across the globe are suddenly dealing with the [highest](#) ever proportion of renewable energy in the power mix. This has inadvertently given energy systems a real scenario to test and develop a playbook for more resilient grid integration of [intermittent](#) sources of power such as solar and wind. On the other hand, the lower demand combined with the price war among OPEC+ constituents sent Brent oil [crashing](#) to much lower levels than the break-even price of \$30. This has altered oil economics.

Market is warming up to the risk of climate change in asset pricing, although slowly

Investments in carbon assets such as oil, gas and coal, worth more than [\\$2 trillion](#), face a transition risk where they can become stranded assets. In economics, stranded assets are assets which before the end of their economic life are unable to generate the desired returns due to shift towards a low-carbon economy. Several coal power companies such as Murray Energy have declared [bankruptcies](#) in the last few years driven by transition risk. But comparatively, oil and gas investments have remained safer so far.

American economist Joseph Stiglitz, among others, has argued that prices of carbon assets are markedly [wrong](#), which poses the risk of causing a financial crisis. The market has started acknowledging this risk, although slowly. Even before the crisis, many investors had started to [reject](#) the investment case for oil. However, the turmoil in the oil market has accelerated that process. Several oil drillers are already staring at [bankruptcies](#). The larger oil companies will survive for now but have shelved new investment plans and are coming to terms with the new reality.

Separately, a lot of investment in the stocks of oil and gas companies happened due to passive investing where fund managers replicate an index, say FTSE100, by investing in its constituents. The share of fossil fuel companies in the major equity indices is at its all-time low now and it is likely that many fund managers who dumped such stocks in the current crisis may never return to carbon investing again. Consequently, and other things being equal, any recovery in the broader equity market may not translate into similar gains in the stocks of oil and gas companies. Further, the institutional investors who, with more than [\\$70 trillion](#) in assets, serve as a key source of capital for the equity and debt markets are increasingly adopting sustainable investment practices.

The millennial attitude towards climate change is different

The people born between 1981 and 1996 are already the [largest](#) age group in the workforce and soon may be the largest voter group in the US and many other democracies. Several surveys in the last few years have revealed a generation gap on issues such as climate change. One such survey [found](#) that around three-quarters of millennials consider climate change a threat. While most Democrats are known to support measures for climate change adaptation and mitigation, another survey [revealed](#) that even millennial Republicans hold more liberal views on climate change than most Republicans currently in office. According to the International Energy Agency, around 70% of investments in renewable energy is directly or indirectly driven by governments. As millennials start playing a more decisive role in policymaking in the coming decade, the action on climate change may intensify.

The parallel shifts in renewable energy and energy efficiency will continue

Energy transition, characterised by more renewable energy generation, higher adoption of energy efficiency and cleaner transportation, could be delayed but not derailed by the Covid crisis. The supply chain and project execution of renewable energy projects have been hit hard due to lockdowns in key geographies. Extending commissioning deadlines, enabling cheaper financing and facilitating currency hedging in developing markets amidst a strengthening dollar will help resolve many supply side issues in renewables.

The power sector remains more resilient to the crisis than most other sectors of the economy, particularly on the demand side. And within the power sector, renewable energy will remain competitive. Irrespective of the [shape](#) of the global economic recovery, bigger bets on sustainable energy now will act as a stimulus for the wider economy.



Notes:

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