



The Speed of the Energy Transition

Stockholm (HedgeNordic) - With renewable energy making up just a small part of the global energy mix, the world needs a rapid switch to renewable sources of energy to slow down global warming and prevent climate change. One of the most common questions surrounding the global energy transition is whether the switch from fossil fuels to sustainable energy will be gradual or rapid. Several Nordic fund managers running energy transition-focused funds shared their thoughts and insights on this specific question and other related topics.

On the future of energy, **Hans Berglund**, sector specialist at Stockholm-based asset manager **Proxy P Management**, says that “the overarching one thing that one has to remember is that the need for energy will grow, the demand for energy will expand geographically, will grow volume-wise, and the intensity of request for energy will just expand.” There will be an increasing demand for energy from the customer side, argues Berglund, because of population and economic growth, especially in emerging market economies.

Vidar Kalvoy and **Joel Etzler**, portfolio managers at **Coeli Asset Management**, expect “a temporary peak in energy demand sometime in the 2030s.” According to Kalvoy, “my optimism is down to energy efficiency, which is about to improve tremendously as we electrify transportation, among other things.” Humanity will

likely spend a much lower share of the global gross domestic product on energy in the future than today. “Because the cost of energy will eventually fall effectively to zero, energy demand will rise again,” argues Kalvoy. “But the energy will be clean and close to free.”

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Regardless of the trajectory for energy demand over the next decades, the hedge fund managers interviewed reckon that the world will still need to rely on fossil fuels for many years to come. “In the near term, the world will need more fossil fuels, sadly,” says Etzler, who manages **Coeli Energy Transition** alongside Kalvoy. “It will still take a long time before renewables will be covering the majority of the energy demand.” **Dan Lindström**, CEO at Proxy P Management, agrees. “We are still going to use tens and tens, if not hundreds of millions of barrels of oil even in 2030,” he says. “There is little doubt that oil, gas and coal will account for the majority of energy production, possibly far into the next decade or beyond,” adds Etzler.

Gradual or Rapid?

On the question of whether the switch to renewable sources of energy will be gradual or rapid, Lindström says that “the energy transition is going to happen faster rather than slower.” Yet he acknowledges that “you can only have the best guess depending on what you see out there.” Kalvoy, meanwhile, says the answer “depends on what rapid is.” The Coeli duo is “bullish on the growth in renewables, but we would probably categorize the transition as gradual.” Kalvoy points out that “there are many factors to consider, but one thing big forecasting agencies have in common is that they have all underestimated the growth in renewables. Consistently.”

Explaining why the growth in renewables had been underestimated, Kalvoy argues that one of the reasons involves the forecasting models that are built on the current framework. “Although hard to predict how the framework will change, the assumption that it will stay intact has consistently been incorrect through history,” argues Kalvoy. The framework reflects “the price of renewables, the growth in supporting infrastructure and not the least, incentives to produce fossil

fuels.” In particular, Kalvoy reckons that “carbon taxes will play a bigger role in the future.”

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Although Lindström believes the energy transition will speed up, he acknowledges that “there are still a couple of hurdles.” The existing infrastructure represents a hurdle. “The infrastructure for energy is already there and if you want to switch to something else, you need to adapt the existing infrastructure,” argues Lindström. “That is the reason the energy transition is happening faster in Asia, because it is easier to build a new infrastructure rather than replace an existing one.” Because “there is so much capital invested in oil, another hurdle that slows down the energy transition is economic interest,” argues Lindström.

Feedback Loop and Climate Change

Despite numerous hurdles, Lindström and his team at Proxy P believe the energy transition will be rapid. “It is the combination of new energy transition policies and the society’s response to climate change that accelerate the transition to more sustainable sources of energy,” argues Lindström. “But if this combination would not go hand in hand with technological advancements, which translates into lower energy costs, the transition would not happen as fast,” he emphasizes.

Mark Lewis, Head of Climate Change Investment Research at **BNP Paribas Asset Management**, shares the same thoughts. According to Lewis, policies and technological progress are interacting in a “virtuous feedback loop” in which each provides stimuli for the other. On the one hand, policy drives technological innovation and progress. On the other hand, advancing technology, which can result in lower solar power costs or more efficient batteries, makes room for more ambitious policy goals.

The society does need more ambitious policy goals, because the shift to a renewables-based energy system needs to accelerate very fast to slow down global warming and offset the impact of climate change. According to Etzler, “while the growth in renewables will with time be sufficient to meet the growing energy demand, at any reasonable trajectory renewables will not grow quickly enough to save us from the worst effects of global warming.”

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Renewables such as wind and solar account for only about five percent of total energy demand. “In order to slow down global warming, we need incentives to shift,” argues Etzler, who adds that “currently, the incentives globally are to burn more fossil fuel.” We need a shift in government policies to save the planet. “We also need to mobilize capital from fossil fuels toward renewables and significantly increase carbon capture,” argues Etzler. “The fossil fuel industry is at the center of this problem, but we hope, the industry can be part of the solution.”

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