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# Net-zero commitments in oil and gas

## August roundup

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Hi everyone,

The big news this month (from my perspective at least) is I'm changing jobs, so this will be my final newsletter - the end of a two-year odyssey!

Thankfully, I won't be going too far - I'm joining a renewable energy financial consultancy. If you'd like to stay in touch, you can either follow me on [Twitter](#) (though I'm not an active poster) or drop me a line at [michiel.vriens@gmail.com](mailto:michiel.vriens@gmail.com).

Given this is my last hurrah, I thought I'd do something a little different and give you my two cents on some of the key trends in the sector. I've come up with five, ranging from where clean energy investment is heading to why oil majors are worried about electric vehicles. Read on and find out!

This newsletter will be returning, written by one of my colleagues. It might take a break for a month or two, but do keep an eye on your inbox.

It's been an absolute pleasure writing for such a wonderful audience. Hopefully, I'll be fortunate enough to meet some of you in person in the not too distant future.

Warmly,  
Micky

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Stat of the month:

50%

The share of investments that European oil majors will devote to low-carbon energy by the end of the decade, according to Bloomberg Intelligence.



## Future trends

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### European majors will spend more on low-carbon energy

When I started writing this newsletter, there was a lot of justified scepticism about the clean energy investment pledges the European oil majors were making. After all, they'd been making them for years - BP pledged to go '[Beyond Petroleum](#)' way back in 2002!

But I would contend that, this time, it's different. The fact the majors have invested billions on renewable energy assets says something. They're still spending billions on fossil fuels of course, but they are finally massively increasing spending on clean energy. Much more needs to be done if climate targets are to be reached, but it's essential to see the bigger picture here.

Unlike in 2002, these majors are already looking at peak oil demand. Their business models will have to change fundamentally, but I think the penny has, finally, dropped.

It's quite something that Bloomberg Intelligence (I can strongly recommend following their analysts) predict that, by 2030, the European majors will be spending half of their annual investment budgets on wind, solar, hydrogen, CCS, electric vehicles, batteries, methane reduction and more.

This is not the case for the US majors, nor for many other international oil and gas companies, which lag well behind their European counterparts when it comes to energy transition strategies.

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### Rivalry between electric utilities and oil majors is overblown

Everyone seems to love a good rivalry and much has been made of the one [between](#) electric utilities - the Ørsted, Iberdrola and Enel of this world - and the oil majors. I think this is overblown. For every example of a utility and an oil major going head to head - in an offshore wind auction, for

instance - there's an example of these companies joining forces to build a project. For instance, Iberdrola and BP are [jointly investing](#) USD 1 billion in EV and green hydrogen infrastructure.



**“That is an existential threat to much of the oil sector and will hit the retail divisions of the oil majors particularly hard as more EVs hit the road”**

Competition between the two does exist, but it's not binary. The global energy system is complex and these companies have wildly different comparative advantages. Will Shell end up running complex electricity transmission and distribution networks? Probably not - Enel will run circles around it. Will the utilities become hydrogen majors? I think the oil majors have a slight advantage here.

The electric utilities will gain in prominence relative to oil majors - as electricity becomes the premier source of energy, the companies that know that business best will benefit. But the oil majors have the money to reinvent themselves. Time will tell if they're able to do so.

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## Leveraging hydrogen will be vital

Hydrogen won't be the new oil, but it will be an important commodity. It also happens to provide the perfect synergy between electrons and molecules for the oil majors. The reason this newsletter has so often elevated green hydrogen deals is because so many of the majors' [large renewable energy projects](#) are in some way connected to hydrogen production.

For these companies, it makes commercial sense to connect these projects as it enables them to build experience in a new industry - solar or wind - all the while helping transform a sector they know all too well: Hydrogen. And with gas prices at record highs and showing no signs of abating, most of [the smart money](#) will be on green hydrogen (produced with water and renewable electricity) rather than blue (using gas and carbon capture and storage).



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## The oil majors will be big players in wind

The barriers to entry in the wind industry are higher than in the solar sector. Even more so if we're talking offshore wind. Developing a wind farm is a more complex undertaking from an engineering perspective than installing solar panels. This provides the oil majors with an entry point. At their core, they are just huge engineering firms and they can leverage their skills when moving into the wind sector - especially for offshore wind and floating turbines.

Large balance sheets, engineering expertise and a stronger commitment to build projects will mean that, over the next decade, many offshore wind projects will be built, at least in part, by the oil majors. That's not to say that they'll dominate the sector, but they'll be a significant presence in it.

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## Pay attention to electric vehicles

As BloombergNEF's recent [Road Fuel Outlook](#) highlights, oil demand in road transport is roughly 60 million barrels a day (mbd) - about 60% of global oil demand today. All-electric vehicles (EVs), i.e. those powered entirely by a battery, might end up cutting demand by 31 mbd by 2050. So EVs alone could end up reducing global oil demand by 30% by mid-century. That is an existential threat to much of the oil sector and will hit the retail divisions of the oil majors particularly hard as more EVs hit the road.

The oil majors are slowly waking up to this fact, which is why they're making large investments in EV charging infrastructure. I only expect this trend to continue.

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In order to help gauge how oil and gas companies are positioning themselves in the energy transition, this newsletter specifically focuses on how they are moving into renewables and clean energy. To offer up-to-date analysis, it uses insight from media sources and subscription-based databases, like BloombergNEF.

Feel free to forward this newsletter on to colleagues!

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