3 Oil Majors that Bet Big on Renewables

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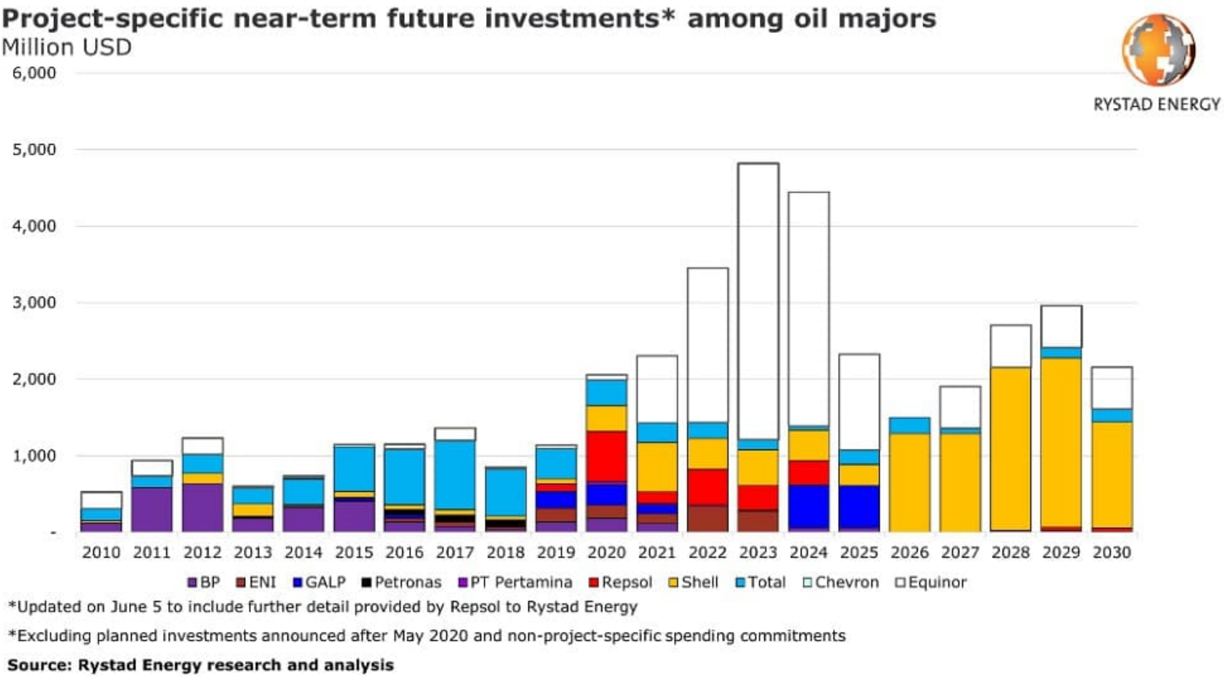
Big Oil has frequently been chided for merely trying to burnish its green credentials, and so far, it has done little to convince us that it is truly moving forward to greenness. Despite the much-vaunted megatrend involving the global electrification drive and shift to renewable energy, the most ambitious pledges by Big Oil to pursue net-zero agendas remain weak at best.

An analysis of near-term spending plans on renewables by the biggest oil and gas companies shows that real investments in renewable energy will continue to pale in comparison to capex plans for greenfield fossil fuel projects.

Let this sink in: In 2018, Big Oil spent less than 1% of its combined budget on green energy projects.

Further, according to Rystad Energy, Big Oil is expected to pump in $166B into new oil and gas ventures over the next five years, thus dwarfing the currently specified outlay of just $18B (less than 10% of capex) for solar and wind energy projects. Indeed, much of Big Oil's reduction in greenhouse gas (GHG) emissions leans on the so-called natural gas bridge.

Good case in point: Italian multinational oil and gas giant Eni S.p.A. (BIT:ENI) recently unveiled what has been hailed as the most ambitious climate pledge yet by an oil supermajor. Eni has announced plans to cut down its greenhouse gas emissions by 80% over the next three decades. Yet, its natural gas output will still comprise 85% of its total production by the end of the forecast period.



Source: NS Energy

Whereas no Big Oil company is likely to earn its stripes as a true renewables energy outfit over the next decade, here are the best bets that are likely to come closest. Notably, U.S. oil and gas supermajors are conspicuous by their absence on this list.

#1 Equinor

It is instructive to note that a NOC, and not an independent oil company, has the most ambitious green strategy of them all. Of the $18B that the supermajors plan to invest in clean energy over the next five years, more than half will come from Norwegian state-owned multinational energy company, Equinor ASA's (NYSE:EQNR) coffers. In fact, if you remove Equinor from the equation, Big Oil's renewable investments will actually decline over the next three years before even factoring in the industry-wide deep capex cuts due to the Covid-19 pandemic.

Equinor has announced plans to invest $10B into clean energy by 2025, mostly through its offshore wind portfolio. The company plans to grow renewable energy capacity tenfold to 4 GW-6 GW by 2026 and up to 16 GW by 2035, thus catapulting it to an offshore wind major. Further, Equinor plans to reduce its net carbon intensity by at least 50% by 2050 by deploying CCUS (Carbon Capture, Utilization, and Storage) and hydrogen technologies.

#2 Total SA

French multinational integrated oil and gas company, Total SA (NYSE:TOT) stands out as the supermajor with plans to develop the most renewable capacity in the near-term.

In the current year alone, Total plans to double its gross global renewable energy capacity to 6 gigawatts (GW) from just a year ago, with the company playing the lead role as the developer and owner of the renewable energy assets over the long-term. For instance, Total has lined up an 800 megawatt (MW) solar project in Qatar where it will own a 49% stake in the project when it is completed in 2021.

But Total is not just content to compete in the traditional renewable energy arena of wind and solar but is also giving Tesla Inc. (NASDAQ:TSLA) a run for its money thanks to its 2016 acquisition of battery company Saft. Thanks to that savvy M&A move, Total is not only currently developing the largest energy storage facility in France, but it is also providing batteries for diverse industries including electric vehicles, military vehicles, medical applications, and even to the oil and gas sectors.

Saft has already gained considerable traction after generating $100 million in free cash flow for its parent company in 2019.

#3 ENI SpA

As we have pointed above, ENI has the most ambitious climate change pledge with plans to lower its greenhouse gas emissions by 80% by 2050. ENI also says that its renewable projects will achieve an installed capacity of 3 GW in 2023 and 5 GW in 2025.

What separates the Italian major from the likes of Repsol and BP with comparable commitments is that ENI has pledged to rein in Scope 3 emissions as well–or emissions generated by ENI's supply chain partners and end-users. Repsol and BP have also set 2050 as their deadline for net-zero carbon emissions but have mostly been vague about their Scope 3 strategies. For instance, in February, new BP chief executive Bernard Looney pledged to meet the demands of the Paris climate change agreement but provided precious few details on how his company planned to make this a reality.

Still, ENI's renewable energy and climate pledges come with a caveat: The company considers natural gas as a necessary bridge as the world tries to wean itself off fossil fuels and also has plans to continue growing its fossil fuel output till 2025.

Natural gas does produce about 28% less CO2 emissions than heating oil and 50% less than coal for the same amount of energy when burned. Further, natural gas can be used to keep the power grid stable as solar and wind power fluctuate.

So, at first glance, that does not sound like such a terrible idea, until you consider that a cross-section of climate experts have warned that we only have a ten-year window in which to take decisive action to prevent irreversible damage to our climate and ecosystems. During the first five years of that timeframe, ENI plans to take a detour to first ramp-up oil production before beginning a ramp-down at an unspecified future date.

In other words, it is mostly business as usual for ENI and other oil and gas supermajors–for now.

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