The Economist

Oil companies and climate change

Nodding Donkeys: Some Oil Majors Are Still Ducking the Issue of Global Warming

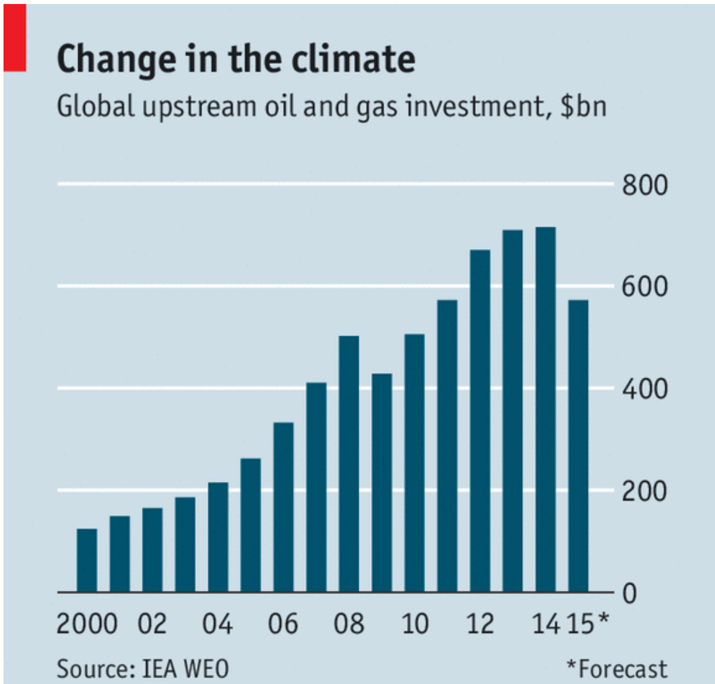
November 12, 2015

FEW symbols of the oil industry are as familiar as the pumpjack, or "nodding donkey" (pictured). The technology is little changed since it was invented in 1925, and in some mature onshore fields it serves as a constant reminder of the world's insatiable thirst for oil—until recently, about one-sixth of American crude came from the tiny "stripper" wells that it usually pumps. It is also a metaphor for how oil-company bosses have responded to the risks of climate change. Every so often they put their heads up and survey the future, only to bury them again. In the run-up to climate-change negotiations in Paris, starting at the end of this month, the industry's willingness to stare the issue squarely in the eye is again under scrutiny.

In the 1990s oilmen responded to criticism from environmentalists by launching campaigns to encourage debate about climate change, and by increasing their investment in renewable energy. Under John (now Lord) Browne, BP of Britain declared itself to be moving "Beyond Petroleum". However, steadily rising crude-oil prices after the global financial crisis led firms to scale back their loss-making green-energy businesses, while continuing to pour money into hydrocarbons (see chart).

More recently a dramatic fall in oil prices has forced them to start cutting some big exploration projects. And as the Paris summit has approached, ambitious pledges by more than 150 countries to cut greenhouse-gas emissions have taken oil bosses by surprise—even if the pledges are likely to fall short of the target of limiting global warming to two degrees Celsius above pre-industrial levels.

If these commitments were to translate into significant moves to limit global warming, this would challenge a view still held by oilmen on both sides of the Atlantic that demand for fossil fuels will keep growing strongly for the foreseeable future. Exxon Mobil, the world's biggest publicly traded oil company, argues that fossil fuels will still account for three-quarters of primary energy demand even in 2040, only



slightly below their current share. But the International Energy Agency (IEA), a body that represents oil-consuming countries, says that to keep global warming to two degrees, fossil fuels would need to fall to 60% of the energy mix by 2040. The IEA sees no mass abandonment of hydrocarbons, but nonetheless, its executive director, Fatih Birol, said on November 10th that, “There should be no energy company in the world [which] believes that climate policies will not affect their business.”

Some oil majors are going on the attack, realising the reputational shambles they face if they are considered foot-draggers on climate change. In October the heads of ten big oil and gas companies (none of them from the United States) officially threw their weight behind the “general ambition” to meet the two-degree goal. Many are cleaning up their energy portfolios by investing more heavily in producing natural gas, which creates less carbon dioxide than oil when burned, for each unit of energy liberated. Shell, an Anglo-Dutch major, is doing so by buying BG, a British firm with big gas reserves. “You can argue that Big Oil is becoming Big Gas,” says Occo Roelofsen of McKinsey, a consulting firm. Others are going in for renewables. Total of France has a majority stake in SunPower, one of the world’s biggest solar-power firms. Eldar Saetre, the boss of Statoil, Norway’s state-run oil company, says that in 15 years there may be more opportunities outside oil and gas than within.

BP executives, also favouring a gassier future, have been modelling potential “demand destruction” scenarios based on the climate pledges made in the run-up to Paris. BP has become one of the first majors to acknowledge the risk that the industry is spending money developing reserves that it may never tap. Spencer Dale, its chief economist (and formerly of the Bank of England), recently estimated that the world had almost three times the reserves of oil, gas and coal that it could burn if it were to hit the two-degree goal.

Yet oilmen still play down the risk that oil and gas assets will be abandoned en masse, not least because of the still-growing demand in the developing world. Collectively the industry is betting on three ways to stay in the fossil-fuel business and yet emit less carbon dioxide. First, executives see gas increasingly substituting for dirtier coal in the power-generation business. Second, they expect energy efficiency to keep improving, allowing drivers, for example, to travel longer on each tank of petrol. Third, they intend to reduce the considerable amount of natural gas (composed mostly of methane, an even more potent “greenhouse gas” than carbon dioxide) that leaks out of their wells and processing plants.

Plenty of oil firms (Exxon among them) are also calling for governments to enact a “carbon tax” on emitters of greenhouse gases. Their critics argue that this is less altruistic than it appears. For one thing, such a tax would hurt the coal industry especially, thereby boosting the oil firms’ gas businesses. And governments, especially in the developing world, where fossil-fuel demand is still surging, may find such a tax politically impossible anyway; the oilmen are calling for it, opponents say, in the knowledge that such countries will never introduce it.

In the absence of a global carbon tax or some other effective measure, however, the risk for the oilmen is that everyone from environmentalists to politicians will simply find other ways to make them pay for global warming. On November 4th New York's attorney-general, Eric Schneiderman, subpoenaed documents from Exxon to investigate how much it has known since the 1970s about the effects of fossil fuels on the climate. Exxon is reportedly being investigated under the Martin Act, dating back to 1921, which gives prosecutors wide-ranging powers to investigate securities fraud. Exxon says it has long disclosed information about the risks to its business from climate change, and from action to prevent it, in reports to its shareholders. But the firm's run-in with the New York justice department may be a portent of what is to come.

Another worry for oil executives is pressure from investors spooked by the financial risks of climate change. Policymakers, such as Mark Carney, governor of the Bank of England, talk about the possibility of many oilfields turning into "stranded assets", or "unburnable carbon", if governments get serious about climate-change action. Anthony Hobley of Carbon Tracker, a climate-advisory firm, says that if the Paris pledges are taken at all seriously, the oil and gas industry may become "ex-growth". Oil executives dispute that. But shareholders, if motivated, could force the industry to shrink just by limiting the funds they provide for new oil discoveries.

Curiously, the present situation may provide a foretaste of this—though cyclically, because of falling oil prices, rather than structurally, because of rising temperatures. Faced with a world awash in crude, oil majors are abandoning high-cost reserves in the Arctic, Canada, North Sea and Gulf of Mexico. One oil executive ruefully calls it a "practice run" for the day in the distant future when fears of global warming, or the emergence of cheap, clean alternative technologies, mean that demand for fossil fuels starts to wane.

https://www.economist.com/news/business/21678219-some-oil-majors-are-still-ducking-issue-global-warming-nodding-donkeys