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# SEE ENERGY BRIEF

## Monthly Analysis

### Energy Transition Faces Market Pragmatism



## Introduction

Major oil companies around the globe are revising their interim emission reduction targets, emphasizing returns to shareholders over aggressive emission cuts. For instance, Shell and BP have both adjusted their targets, citing the need to prioritize cash flow amid market uncertainties. While they remain committed to net zero by 2050, their 2030 targets now reflect a more conservative approach, signaling a shift in focus.

The energy crisis and geopolitical tensions have highlighted the importance of affordability and energy security alongside emission reduction. Despite calls for faster adoption of renewables and cleaner technologies, oil and gas remain integral to meeting global energy demand. Big Oil argues that renewables are not yet economically viable at scale and lack the profitability of fossil fuels, making it challenging to justify significant investment shifts.

Renewable projects with adequate returns have been scarce, prompting the likes of BP and Shell to scale back investments in clean energy. This pivot underscores the profitability of oil and gas operations, which is crucial for enticing shareholders back to the sector. While environmental concerns persist, the allure of windfall profits from fossil fuels remains a dominant force shaping corporate strategies. The main purpose of this Monthly Analysis is to describe the challenges towards decarbonisation as energy transition seems to be a difficult pathway and needs more time to be achieved.

## Challenges of Big Oil Companies

Shell has abandoned a key climate target for 2035 and weakened another goal for 2030, according to its latest “energy transition strategy” (1). The oil major has “updated” its target to cut the total “net carbon intensity” of all the energy products it sells to customers – the emissions per unit of energy – by 20% between 2016 and 2030. The reduction is now set at between 15-20%.

Within Shell’s strategy, chief executive, Wael Sawan, writes that this change reflects “a strategic shift” to focus less on selling electricity, including renewable power. Instead, the company says investment in oil and gas “will be needed” due to sustained demand for fossil fuels. It emphasises the importance of liquified natural gas (LNG) as “critical” for the energy transition and says it will grow its LNG business by up to 30% by 2030. This amounts to a bet against the world meeting its climate goals, with the International Energy Agency (IEA) and others concluding no new oil-and-gas investment is needed on a pathway to 1.5C – and warning against the risk of “overinvestment”. (2)

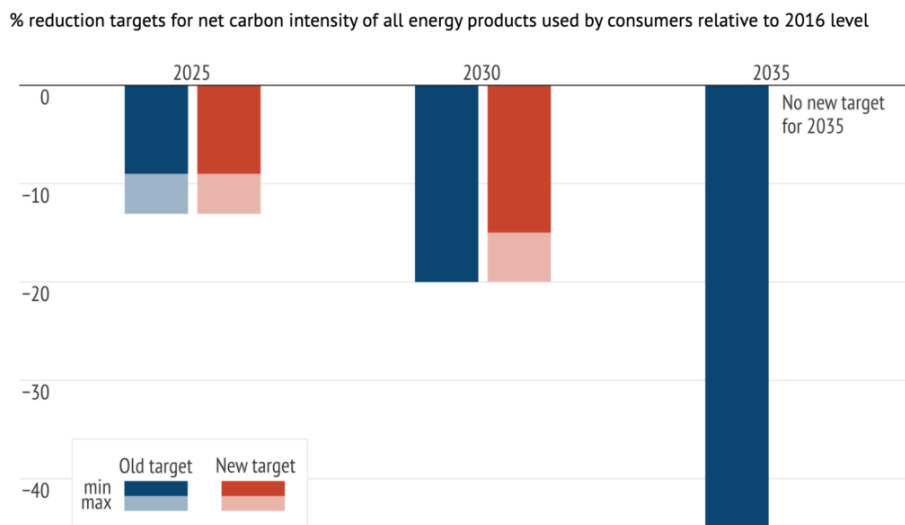
Elsewhere in the report, Shell notes that it has “chosen to retire [its] 2035 target of a 45% reduction in net carbon intensity” due to “uncertainty in the pace of change in the energy transition”. Both goals were

intended as stepping stones on the company’s journey towards net-zero emissions by 2050, a goal set by the previous chief executive, Ben van Beurden, in 2020. The weakening of climate goals from Shell, the world’s second-largest investor-owned oil-and-gas company, comes after BP scaled back its ambitions last year.

The new report marks the first three-year review of Shell’s “energy transition plan”, after it was adopted in 2021. Rather than setting a target for cutting its entire “scope 3” emissions – those generated by the use of Shell’s fossil fuels and other energy products by consumers – the company set itself “net carbon intensity” targets on its path to net-zero. This allows Shell to bring down its carbon intensity and hit its targets through means other than cutting its oil-and-gas production, such as selling more low-carbon products, including renewable electricity.

Shell initially said the carbon intensity of the energy it sells would fall 20% by 2030, from a baseline of 2016, and then 45% by 2035. This amounted to a cut from 79g of carbon dioxide equivalent per megajoule of energy (gCO2e/MJ) to 63gCO2e/MJ by 2030 and 43gCO2e/MJ by 2035. As Figure 1 shows, these targets have now been weakened. The 2030 target has been changed to a range of 15%-20% and the 2035 target has been “retired”, according to a footnote in the review.

**Figure 1: Shell Has Weakened its 2030 Emissions Goal and Scrapped its 2035 Target Entirely**



**Note:** Targets to reduce the net carbon intensity of Shell’s energy product sales, % below 2016 levels, including old targets (blue) and new ones (red). Targets given as a range are indicated by pale colours.

*Sources: Shell, Carbon Brief*

Furthermore, Shell attributes these changes to a shift in its business priorities. The firm says that when it comes to selling electricity, including renewable power, it will focus on “value over volume”. For example, it will target “commercial customers more than retail customers”. The company points to its withdrawal from supplying energy to European homes, having closed its utilities arms in the UK, the Netherlands and Germany in 2023. (3)

Nevertheless, the company also says the “biggest driver for reducing our net carbon intensity is increasing the sales of and demand for low-carbon energy”, rather than cuts in fossil-fuels production. The report states that: “Investment in oil and gas will be needed because demand for oil and gas is expected to drop at a slower rate than the natural decline rate of the world’s oil and gas fields, which is 4%-5% a year”. This amounts to a bet against the world meeting its carbon targets. If the world were to get on track to limiting warming to 1.5C, there would be no need for investments in new oil and gas production, according to the IEA.

In its 2023 World Energy Outlook (4), the IEA said that warnings from oil and gas producers that the world was “underinvesting” in new supplies were no longer valid. It said: “The fears expressed by some large resource-holders and certain oil and gas companies that the world is underinvesting in oil and gas supply are no longer based on the latest technology and market trends”. The agency added that risks were “weighted more towards overinvestment”.

Shell has also introduced a new target for cutting emissions from customer use of its oil products, such as petrol and diesel used in cars, within its energy transition strategy review. This goal amounts to a 40% reduction in absolute emissions by 2030, compared to 2016 – a level the European company says is compatible with the EU’s climate targets for transport. Shell says it will “gradually reduce exposure to oil products used for transport” by shifting its sales away from this area.

Alongside this, Shell announced a renewed focus on LNG in the strategy, which it says will play a “critical role” in the energy transition, even as people embrace electric cars and therefore reduce their reliance on oil. The company expects global demand for LNG to continue growing “at least through the 2030s” and says it will grow its LNG business by 20%-30% by 2030. This marks a continuation of Shell’s focus on LNG from its 2021 strategy, when it said it would “extend leadership” in this area.

Shell’s internal outlook for the growth of global LNG demand is markedly more optimistic than the IEA’s, which suggests that there is already enough capacity built or under construction to meet demand for the next two decades. According to the Institute for Energy Economics and Financial Analysis (IEEFA) (5), Shell’s LNG outlook “underestimates barriers” to demand growth. IEEFA says: “Shell is pinning its hopes on rapid demand growth in emerging markets and China’s industrial sector, which may never materialise”.

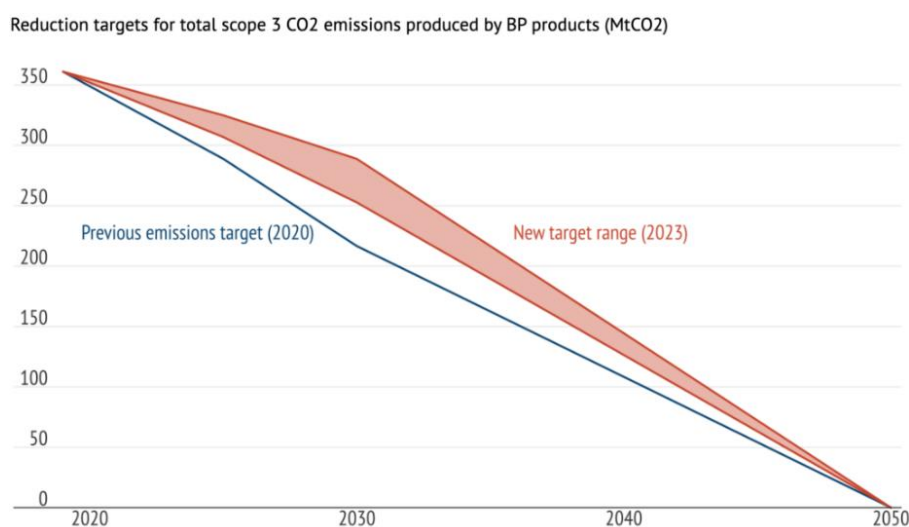
Despite its plans to expand its LNG business, Shell’s report overall emphasises a “balanced and orderly transition away from fossil fuels”. Shell states that it has so far met its climate targets and points to its success reducing emissions from its own operations, such as those from oil rigs and offices. It argues in the small print at the bottom of the report that, despite its targets for consumer carbon intensity, “Shell only controls its own emissions”. (6)

The report also stresses that its plans for net-zero are dependent on society as a whole and “if society is not net-zero in 2050... there would be significant risk that Shell may not meet this target”. This is familiar language from the oil major, which frequently explains that it is consumers, not Shell itself, that influence fossil-fuel use. Shell’s review follows the global energy crisis that has unfolded over recent years, driven by spiralling gas prices. In response to the changing energy landscape this has brought about, there has been a shift in tone from the oil majors regarding climate commitments.

It also follows a period in which companies, such as Shell, have made record profits due to rising fossil-fuel prices. After taking over from Van Beurden, Shell chief executive Sawan stated that “cutting oil and gas production is not healthy”, emphasising the “fragility of the energy system”. In his introduction to the new strategy, Sawan writes: “Our ability to raise and invest capital depends on delivering strong returns to shareholders, shaping the role that Shell can play on the journey to net-zero. We believe this focus makes it more, not less, likely that we will achieve our climate targets and ambitions.”

BP, Europe’s second largest oil major, weakened its climate targets last year. The change in its goals, which unlike Shell’s are based on full scope 3 emissions, can be seen in Figure 2. Shell’s “strategic shift” in its operational focus comes amid a wider effort to cut operating costs. This has seen the company announce plans to reduce staff numbers, in particular in low-carbon sectors of the company such as hydrogen. The company’s profits have fallen now fossil-fuel costs have returned to more normal levels, but have remained high. In February, the company announced an annual profit for 2023 of more than £22 billion, one of its most profitable years on record.

**Figure 2: BP Has Also Weakened the Climate Targets on its Pathway to Net-zero**



**Note:** Reduction targets for total scope 3 CO2 emissions produced by BP products (million tonnes of CO2 – MtCO2). The old target is indicated by a blue line and the range of new targets is indicated by the red area.

Sources: BP, Carbon Brief

Amin Nasser, CEO of Saudi Aramco, the world's largest oil producer, speaking at the latest CERA Conference last month, said, to much applause, "we should abandon the fantasy of phasing out oil and gas, and instead invest in them adequately to reflect demand". Despite the growth of electric vehicles, solar and wind power, oil demand this year will reach a new record of 104 million barrels per day this year, Nasser said.

Alternative energy has yet to show it can displace hydrocarbons at current requirements or prices, Nasser added. He rejected the International Energy Agency forecast of peak oil demand in 2030. Other oil CEOs echoed his view, with Shell's Wael Sawan pointing to government bureaucracy in Europe as slowing needed development. Petrobras CEO Jean Paul Prates said caution should overrule haste. Exxon Mobil CEO Darren Woods also said regulations governing clean fuels have still not been resolved. (7)

Exxon's Woods, whose company spent \$4.9 billion on a carbon sequestration company, raised concerns about building a business around hydrogen and carbon capture and storage. He said in remarks at the conference he is not confident that carbon capture and storage will "necessarily come to the right solution" because of its current high costs and lack of market incentives. On the use of hydrogen as a fuel, "the challenge has been translating the legislation of the IRA (Inflation Reduction Act) into regulation", Woods said. "There isn't a lot of incentives" to drive low-carbon hydrogen fuel projects, he said, referring to hydrogen derived from natural-gas.

## Funds Quit Climate Group

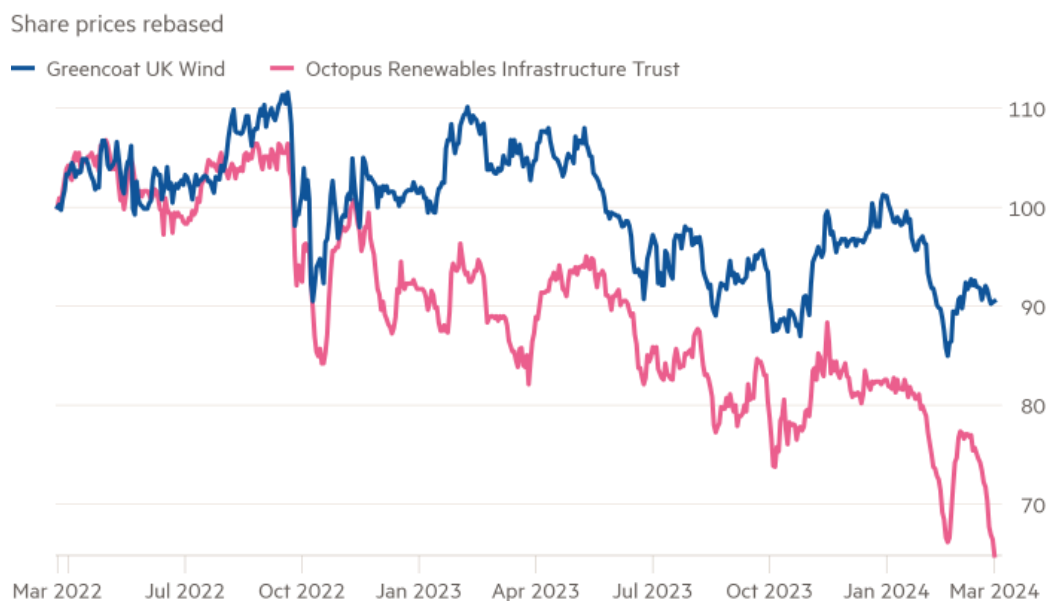
Recently, JPMorgan Chase's and State Street's investment arms both quit a global investor coalition pushing companies to rein in climate-damaging emissions, while BlackRock said it has transferred its membership to its international arm, limiting its involvement. The decisions together remove nearly \$14 trillion of total assets from efforts to coordinate Wall Street action on tackling climate change and came after the coalition, known as Climate Action 100+, or CA100+, asked signatories to take stronger action over laggards. (8) (9)

Financial firms have faced growing pressure from Republican politicians over their membership of such groups, amid accusations that committing to shared action could be a breach of antitrust law or fiduciary duty. None of the firms cited politics among their motivations. A spokesperson for State Street Global Advisors (SSGA), which manages \$4.1 trillion, said the new priorities set by CA100+ threatened its ability to act independently. The priorities, adopted last June, call for CA100+ signatories to engage with policymakers and for some to publish details on their talks with companies towards the goal of getting them to lower emissions to zero on a net basis by 2050.

The changes, however, were "not consistent with our independent approach to proxy voting and portfolio company engagement", said State Street spokesperson Randall Jensen. JPMorgan's fund arm said it had

decided not to renew its membership of CA100+ after building up its own investment stewardship capabilities. The unit manages \$3.1 trillion. BlackRock said it is no longer a member of the CA100+ but rather has shifted its membership in CA100+ to BlackRock International. “As BlackRock made clear when signing up as a member of CA100+ in 2020, at all times the firm maintains independence acting on behalf of clients, including in choosing which issuers to engage with, and how to vote proxies”, the company said in a press release. It also said it would add a new engagement and proxy voting option to give clients a way to prioritize climate goals. (10)

**Figure 3: Green Investment Trusts are Suffering**



Sources: LSEG, Financial Times

BlackRock’s move effectively removes \$6.6 trillion, or two-thirds of its total assets, from the pool represented by CA100+. Kirsten Spalding, vice president of the Ceres Investor Network, which oversees the CA100+’s North American efforts, said the group had expected some signatories to leave as it adopted its new priorities, and that it would continue its efforts despite the loss of the big asset managers. “We knew that the focus on making sure there was movement from certain companies was going to be uncomfortable for some investors”, Spalding said in an interview.

A notable absence is the world's second biggest manager, Vanguard, which never joined and, in late 2022, dropped out of another well-known climate grouping, the Net Zero Asset Managers (NZAM) initiative. Vanguard also cited independence concerns, as did a number of insurers who left a sibling organization. Richard Fields, consultant for leadership advisory firm Russell Reynolds Associates, said the departures are in line with how many companies have grown less vocal about environmental, social and governance (ESG) issues even as they continue to see benefits in an energy transition and diverse workforces.

The development puts groups like CA100+ “at a crossroads,” he said. “Do they want to keep being more vocal and aggressive? Or do they follow the markets and be a little less aggressive?” While it is hard to say whether the firms caved to political pressure, Fields said, “There’s definitely some overlap in concepts between what the Republican establishment has brought up, and these decisions.”

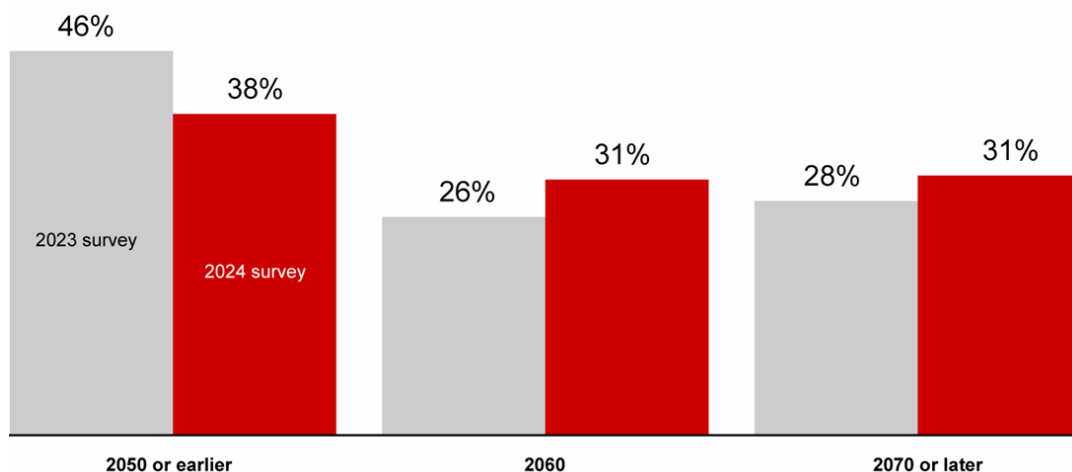
## A “Reality Check” Survey

The energy transition looks slower as it becomes even more difficult to ensure adequate investment returns and progress diverges across a fragmenting world. That is the main message from Bain’s annual survey of 600-plus executives in oil and gas, utilities, chemicals, mining, and agribusiness, taken during COP28 and the weeks after. The survey results provide insight into what is top of mind for the executives of energy companies, while some of the most notable themes that have emerged are summarized below. [\(11\)](#)

### Fewer Executives Expect the World to Achieve Net-Zero Carbon Emissions by 2050

Despite energy companies’ continued investments in decarbonization, about 62% of executives now anticipate the world will reach net zero by 2060 or later, up from 54% in last year’s survey (see Figure 4). This view is consistent across most regions and is most strongly held among oil and gas executives. A slower rate of decarbonization makes companies’ resilience and adaptability plans all the more important, in order to withstand more severe impacts of climate change.

**Figure 4: Share of Energy Executives Who Expect the World to Reach Net-zero Carbon Emissions by Target Date**



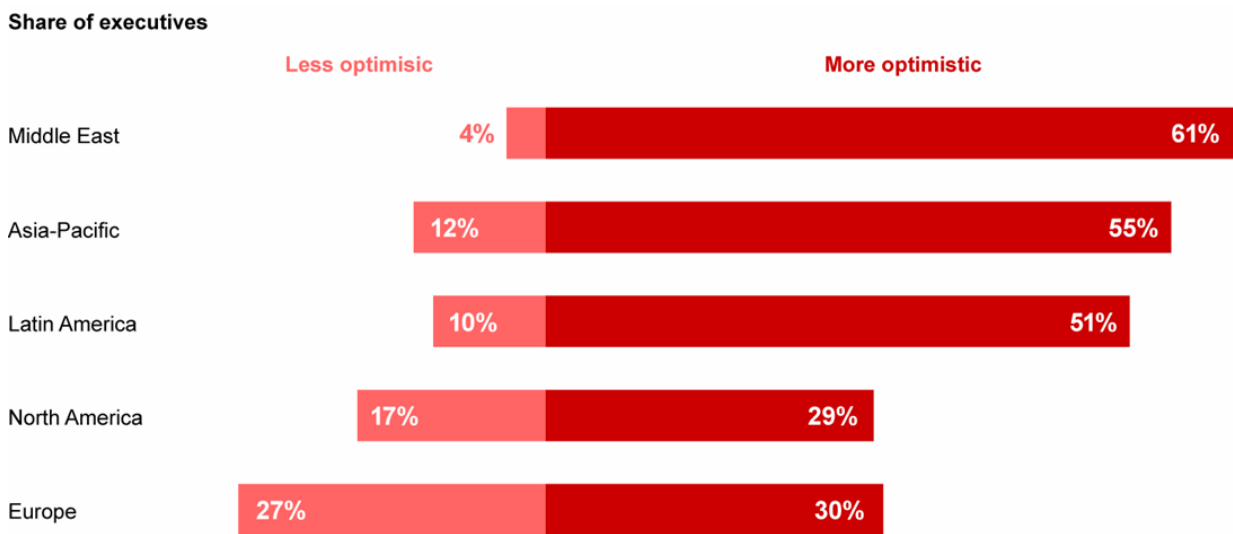
Sources: Bain ENR Transition Surveys 2023 and 2024



## Most Companies Are Maintaining or Increasing Investments in Their Transition-Oriented Growth Businesses

This year’s survey found growing optimism among most energy executives in the Middle East, Asia-Pacific, and Latin America about the contributions that transition-oriented growth businesses (such as renewables, hydrogen, bio-based products, and lithium and other transition commodities) will make to their company’s valuation and profits by 2030 (see Figure 5).

**Figure 5: How Have Your Expectations Changed Since Last Year Regarding Contributions of New Energy Transition-Oriented Growth Areas to Your Profit and Valuation by 2030?**



Note: Excludes those who responded "no significant change"

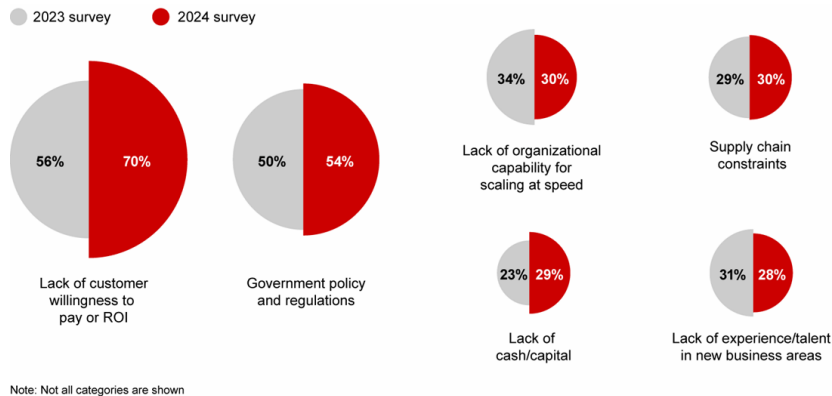
Sources: Bain ENR Transition Surveys 2023 and 2024

## But Executives are More Concerned Than Ever About Generating Acceptable Returns to Scale Up Their Transition-Related Businesses

The financial viability of energy transition projects is a growing issue for energy executives. Like last year, they say the greatest obstacle to scaling up their transition-oriented businesses is finding enough customers willing to pay higher prices (or having equivalent policy support) to create sufficient return on investment. However, the share of executives identifying this as a very significant roadblock jumped 14% from 2023 to 2024, to 70% of executives (see Figure 6).

Figure 6: Share of Executives Who Consider Each Factor to be a Very Significant Roadblock to Scaling Their Energy

Transition-Oriented Growth Businesses



Sources: Bain ENR Transition Surveys 2023 and 2024

## Discussion

A main finding of the present analysis is that energy transition progress is diverging across regions as the world fractures economically and geopolitically. Even as increasing government subsidies make some regions, such as North America, more attractive for investment, executives have growing concerns about policy stability. Macroeconomic headwinds (notably, high interest rates) have made it that much harder to assemble sufficient capital to scale up transition projects and to attract enough customers to deliver a return.

As governments and activists advocate for faster emission cuts, oil companies face mounting scrutiny over their environmental commitments. The divergence between shareholder interests and sustainability goals poses a significant challenge for the industry. While renewable technologies continue to evolve, their widespread adoption remains contingent on overcoming economic and regulatory barriers.

Society may want to see emissions reduced, but the challenge is that no one wants to pay for the energy transition, according to the ExxonMobil’s CEO. “And so if you don’t pay for it, you can’t engage the markets, you can’t provide the incentives for what are very large capital investments”, Darren Woods said recently. Moreover, the challenge for hydrogen in particular is there is not a “huge incentive” to drive forward low-carbon projects over existing sources.

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