Sustainability Now Podcast
“Is This How Oil Ends?”
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Mike Disabato
What's up everyone, and welcome to the weekly edition of Sustainability Now, where we cover how the environment, our society and corporate governance affects and are affected by our economy. I'm your host, Mike Disabato, and this week we talk about whether the air war in Iran has effectively killed the fossil fuel industry. Thanks as always for joining us. Stay tuned. I want to read you a quote from Patrick Pouyanne, the chief executive officer of TotalEnergies, which was said at the Ceraweek conference in Houston in late May and was reported on by Bloomberg News. He said, quote, it's clear to me if this crisis lasts more than three or four months, it becomes a systemic problem for the world. We cannot have twenty percent of the crude oil which is exported globally stranded in the Gulf, and twenty percent of the LNG capacity stranded without any consequence. He was talking about, of course, the closure of the Strait of Hormuz, which was effectively blocked since February twenty eighth when the US and Israel launched an air war against Iran. Now, this crisis is ongoing, and it's very much continuing as of this recording. So the consequences that we have already seen, the death and destruction wrought upon the innocent. There's billions already being spent by countries having to subsidize rising energy costs and people having to ration fuel for cooking. Since the conflict has created the largest supply disruption in the history of global oil. So those consequences are going to continue and intensify as this crisis continues. But there is also another consequence that might have already emerged, one that is more structural and very much less dire, and one that may be the only positive aspect of the situation, even though it's completely unintentional. There's talk that this war of choice has accelerated the end of oil and gas in favor of renewables, an energy source that is domestic and incapable of being used as a bargaining chip in a global war. It's a view that's held by Fatih Birol of the International Energy Agency, who is quoted as saying. I expect one of the responses to this crisis will be an acceleration of renewables, not only because they are helping reduce the emissions of companies in brackets, but also they are a home grown domestic energy source, meaning they're the best type of energy security. Now the devil is in the details with this type of thing. So if we are to believe this, where might it be seen on an industrial level? Can all of the industries move to renewables tomorrow and do away with the vicissitudes of a global fossil fuel market? That is likely going to get more complicated as geopolitical tensions continue to rise? To figure out that question and to understand if this is just random escapism on my part and everyone else. Or it’s reality. I spoke to Chris Cody, who's my colleague and who also leads our energy transition research team, and I asked him whether these headlines that this is the end of fossil fuels and the era that benefited from them are with merit.

Chris Cody
I think one thing that's been missing from the headlines in general, especially in the US, is that the transition has been happening and accelerating on its own. There are basic facts out there that I think are worth remembering. The IEA World Energy

Investment Report last year, twice as much spending is going toward clean energy, including, you know, the grid as well, rather than fossil fuels. Ten years ago, that was the reverse, with fossil fuel supply investment thirty percent higher than electricity spending. So electrification in general is supercharged, and the majority of that is renewables.

Mike Disabato
It's to the point where in twenty twenty five renewables were able to provide sufficient power to meet all new electricity demand worldwide. That's according to Ember and Energy think tank, meaning the sparkle that was coming off renewables after the war began was already there. It was just waiting for the spotlight, even if that spotlight was from the horrifying glow of war.

Chris Cody
But maybe what's different this time, if I can say that, is that the costs of batteries for energy storage have really fallen. They fall in ninety three percent since twenty ten through twenty twenty four, and they've continued to fall since then. So that dramatic decline, especially in the last few years, we've seen that lead to really sharp build outs of project installations and amount of batteries installed have just really sharply grown. And what this does is it gives renewables, specifically solar, a stronger foothold. It can do more of the jobs of firm power. Not totally, but it's letting it enter markets it couldn't enter before and at cheaper costs. And at the same time, it's also making electric vehicles incrementally more affordable. So this is just an enormous build out.

Mike Disabato
Now, that build out does not mean that we can shut down all the fossil fuel generators tomorrow and ignore the disruption to the global energy supply. But it does mean you get stats. Like I noted before, Chris started speaking again, that renewables met all new worldwide demand in twenty twenty five, with solar meeting seventy five percent of that demand. And it's because of that point that Chris just made about batteries, which I think is important enough to say twice because it is the only way to flatten out the problem of intermittency for solar, which has long since been the detractors of Solar's favor. Counterpoint. They say, well, how are you going to use solar if when it's cloudy it doesn't work? You don't have to worry about that when solar is able to use batteries that have grown in capacity by twelve fold since twenty nineteen and are being installed everywhere, even in the US. So keeping all of that context in mind, what industries have the lower carbon technology available to them that they can substitute in right now? Because this isn't just a question of cleaner power supplies. Now, luckily, Chris and his team have been studying this very question for a number of years.

Chris Cody
We produced something that is a technology readiness assessment of the technologies that can help decarbonize industry or provide alternatives for them. And we find, again, that power generation data centers, these have the strongest opportunities. Vehicles kind of fall in the middle, where in some markets, you know, electric vehicles are flying off the shelves and have become the majority or the first choice option for new vehicle sales, where in the US specifically, but also in other markets like in developed East Asia, Korea, Japan, these are lagging. But then you get into heavy industry airlines. Uh, so aluminum manufacturing, steel

manufacturing, these options are less commercially adaptable today. They're too expensive. There's maybe siting or permitting issues, other safety or environmental issues that get in the way. And so these other industries, you know, they're not able to then invest in some other future. They're just having their margins squeezed by a crisis like this. You've seen dramatic differences of chemicals companies that had access to cheap U.S. gas, natural gas as their main input. Their share prices went through the roof because everyone realized they had a strong advantage compared to, say, their European or Asian peers who were going to be paying through the nose for their key feedstock.

Mike Disabato
What Chris is talking about there is that in mid-March, a chemical plant in the US was paying about three dollars for natural gas. A plant in Europe was paying for that same gas, but was paying seventeen dollars. Same fuel five times the price. Due to the simple fact that the US has a lot of natural gas in Europe has to import. And you know what that's like right now? Now, that's just one anecdote. But investors saw the difference there and the stock moved because of it as Chris said. And it's likely going to move again when the difference is gone. You know I'm not making a prediction there. Only the godly market knows. But imagine if that company announced it was able to completely secure its energy locally and without the need for a truce between two state actors that seem hell bent on not signing a truce during a crisis, that would likely be a good thing for that company. And I don't mean that as an endorsement. I just mean that as basic maths. And that is what we are seeing now with this crisis. A real shift in asset prices based on different sources of energy supply that they have access to. Now, what this is alluding to is that there's a serious geopolitical difference right now for competitive companies. It's something that Chris hammers home in a blog that he recently published, and one that's coming out on April twenty eighth. It's not just about whether an industry has substitutes for its energy or its processes and operations. It's also about the various factors that play in the state that it's operating in. I don't mean war or not war, I mean policy versus no policy.

Chris Cody
So the first question I would ask is, who's going to be feeling the pressure from this? Right. We had an example of a chemicals firm. Well, it really matters where they are, where they're importing from. It also there are other really important details that matter, like are they on a long term fixed contract versus more of a variable contract? These things really matter. And that matters for, let's say, even at a macro level like Japan, you know, they're importing a lot of their gas on long term contracts, but fixed to the price of oil usually. Um, so even though gas has its own pricing, if it's linked to oil, these things can move in different directions at different times.

Mike Disabato
Markets, different markets with different options. And if you look at Chris's research, he highlights that markets like Taiwan, Japan, South Korea, they both import a lot of their oil and gas, and they have high policy pressure to decarbonize. These are the places where everything is pushing in the same direction. The bill is coming due, and it's really expensive, and the policy incentives are there to do something about it. Conversely, India, Pakistan, South Africa, they import almost all of their oil, but

their grids run on domestic fuel and the policy pressure isn't really there. So even though the closure of the Strait of Hormuz hurt them, the structural push to transition is weaker. And then you have the US, Canada and Brazil. They export a lot of their stuff. So they are a bit a bit, not completely, but a bit more insulated than other markets. But and this is where all this comes together in Chris's research country level pressure only matters if the industry is sitting inside that country actually has somewhere to go. Remember what we said earlier power generation, data centers, paper products. These are industries with mature alternatives that are cost competitive. And they're ready to be switched to. But chemicals, cement, aluminum, not so much. Now, I wanted to come full circle here. I quoted Patrick Pouyanné of Total Energy at the beginning of this podcast, because he's the chief executive of an energy major. And so his concerns can be read as a pretty serious thing when he's predicting problems for his industry. And so I wanted to ask Chris if what he thought when he saw this crisis emerging, what was going to happen to the global energy supply, in his opinion, and where he thinks this is all going to end up The consequences to human life is laid bare daily, but the consequences to our supply of energy are less transparent.

Chris Cody
When the crisis hit, the instinct was to expect a scramble back to coal. That's what energy crises have always produced. And early on you were hearing exactly those same warnings. But I admit it's surprising that that's not what happened from what we're reading. And props to Ember in the center for Research on Energy and Clean Air, especially global coal generation outside China, has actually fallen in March compared to a year earlier. And what's filled the gap was renewables. Wind grew more than twice as fast as coal fell. Solar more than four times. And that's really saying something about where we actually are in the transition. The alternatives are there at meaningful scale to actually pick up the slack. And this momentum shaping where capital seems to be going next, nuclear is having a big moment. Geothermal is having a big moment. Battery costs. I mentioned they fell ninety three percent from twenty ten to twenty twenty four, but they fall in forty five percent in the last year alone, which means renewables are increasingly dispatchable, not just cheap on paper or in theory. And so far this experiment has been pretty stark. Europe's refiners are maximising jet fuel output just to keep their planes flying. Asia's refiners are cutting crude processing and India's homes and restaurants. They're still facing these LPG shortages. So we're seeing what energy dependence and concerns about energy security actually look like in practice. Now we're not going to remain in this crisis state forever. Oil and gas traders are expecting prices to fall. LNG prices are set to head from around forty five euros per megawatt hour today in Europe, down to thirty five by next summer and back into the mid twenties by twenty twenty eight. But here's the thing. Countries have now been through this, not just once this time, but also a few years ago when Russia invaded Ukraine. They've felt now what energy dependence actually costs. And a lot of them are looking to keep building alternatives, regardless of what tomorrow's price forecast is. It's still early stages, but this looks to us more like a structural shift than just a crisis response.

Mike Disabato
And a structural shift can happen simply because you don't want to be the one company that is on the wrong side of a trade. The airline industry is a great

example of this. US airlines don't hedge their fuel prices anymore because the domestic competition started to not has its fuel price anymore. So all the airlines didn't want to be the one US airline that was going to be caught on the wrong side of a hedge and lose significant profit share to a domestic competitor, whereas European airlines still do hedge their fuel prices by buying futures and the like, because their domestic competitors also hedge, so everyone will be on the same side if oil prices go wrong. It's a bit of a chicken or egg situation that's happening there. Now this energy transition, it may be a good sight to behold, but it's coming during a time when most of our viewpoints are terrifying. Still, it was good to think about something nice during this time. Something that may be a force of will that can't be stopped even by a war. And that's it for the week. I want to thank Chris for talking to me about the news with a sustainability twist. I want to thank you so much for listening. If you like what you heard, don't forget to rate and review us and subscribe so you get sustainability now in your podcast box every week. Thanks again and talk to you soon.

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