# Oil majors – shuffling along the Road to Damascus

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In a volte-face that's enough to make a North Korean dictator blush, the oil majors are continuing to trip over their feet in a bid to reinvent themselves as good guys, having spent the last century-plus playing the black-hat cowboy

Statoil is the latest to have seen the error of its ways… more to the point, finally recognising the tide has turned and forcing its hand to switch strategies from oil to renewables.

The Norwegian heavyweight is far from alone. As DONG (Dansk Olie og Naturgas) sanctimoniously said when announcing its re-brand to Orsted and re-focus to renewables, the time had arrived to shift from "black to green energy".

Statoil's rebrand to Equinor sees the O&G major eagerly point out that its new identity combines "equi" the starting point of such elegant words as "equal, equality and equilibrium", and "nor"… homage to its Norwegian origins. Good lord, what a load of tosh.

This is a seismic shift in the oil industry driven in many cases by investors – in the Nordic cases, pension funds and sovereign wealth – that will no longer touch anything with oil in the name.  As such, the zealous conversion of oil barons to renewable energy pioneers is driven by market reality, not a road to Damascus revelation.

French oil major Total last month (April 2018) made the leap with its acquisition of Direct Energie which has a 550MW renewables portfolio and a 2GW pipeline; while Royal Dutch Shell (also last month) ramped up involvement in renewables through its New Energies division, hinting at up to $2 billion of investments per annum up to 2020.

Beyond that, BP signalled its intentions to carve out its niche in the renewables space last year (2017) with its $200 million acquisition of a 43% stake in Lightsource – imaginatively rebranding it to Lightsource BP.

Those with a functioning memory will recall that BP has been here before with its Beyond Petroleum strategy, but promptly divested all its wind power assets in 2013 and withdrew from the sector. Likely it regrets having done that.

And it's not alone, most of the O&G majors have dipped toes in the renewable water at some stage in the last decade-plus, but it never seems to take long – often a change in chief exec – for them to about-turn and focus once again on "core business", shaking their heads at the folly of previous leaders straying from the path.

That's just the tip of the iceberg. The shift away from oil has been dramatic with environmental, social and governance (ESG) issues being at the forefront of investors' minds these days forcing the hand of "dirty" companies to mend their ways.

It cropped up repeatedly in round tables published in our launch issue of the *IJInvestor Funds & Investors Report*. In this report, infra fund leaders stressed that ESG had transitioned from lip-service to central focus.

To this end every international oil company (IOC) on the planet that has “oil” in its name has either re-branded or is in discussions right now with branding specialists to reinvent themselves as something less unpalatable to investors.

Nice work for the consultancies – money for old rope – who can flog off-the-hanger brands they own and wrap them around a pretty story that the IOC will convince itself reflects the shift in focus (listening Equinor?).

## A green new world

The majority of these oil companies are shifting their focus toward offshore wind, seeking the scale of projects to give them a flying start and to leverage their experience of working in challenging environments.

There’s clear water between where the industry used to be and where it is now. Gone are the days when IOCs dabbled in renewables for this to serve as a fig leaf to their less “responsible” activities.

According to the Global Wind Energy Council, by the early 2020s offshore wind will cost less than €70/MWh (2017 prices) and 120GW installed capacity will be in place by 2030. With €60/MWh just around the corner it becomes ever-more affordable and growing deal flow the IOCs are catching the wave at just the right time.

Furthermore, there will be need for more players with deep pockets in this space to support delivery of ambitious programmes. And ambitious offshore wind programmes are cropping up in every corner of the world.

Just last week (April 2018), Taiwan's Ministry of Economic Affairs awarded grid connection rights for 3.8GW of offshore wind – 336MW more than had been anticipated – with a further 2GW to be allocated in June (possibly more if the first round’s anything to go by).

The winning bidders are:

- WPD – 1,058MW
- Orsted – 900MW
- Copenhagen Infrastructure Partners – 600MW
- Swancor Renewables – 378MW
- China Steel – 300MW
- Taiwan Power – 300MW
- Northland Power – 300MW

Sticking with Asia Pacific, Japan has an exciting market where it already has 44.7MW of offshore wind installed. The Japanese Wind Power Association is pushing for 10GW by 2030 with 30-year leases awarded by the Ministry of Economy, Trade and Industry (METI). This target is now being seen as conservative and pressure is being brought to bear for it to be increased considerably.

Both these markets – Taiwan and Japan – face the extra challenges as the projects are largely in deep water, as such floating offshore wind is increasingly mentioned.

A lot bigger and even more ambitious, China plans to develop 30GW of offshore wind by 2020. There’s a lot of discussion over how it will achieve this… but if any nation can do it, China can.

South Korea plans to increase the country's renewable energy capacity by 2030, taking it up from 11.3GW to 58.5GW by end of the decade which will represent 33.7% of the country’s electricity-generating installed capacity, up from a 9.7% share today. Offshore wind will form part of that push.

And again, that’s just the tip of the iceberg.

Australia has huge potential, as does India, Thailand (where there are declining supplies of natural gas) and Bangladesh (with low-speed turbines). For the US, the days of Cape Wind look to be in the rear-view mirror. Europe is moving at break-neck pace.

Any country with a coastline and decent wind resource – especially now that floating solutions are on the table – is turning its gaze that direction.

## A view from the sea

Chatting this week with renewables supremo Simon Currie who relocated as global head of energy at Norton Rose Fulbright from London to Sydney in January 2015, he has been taken aback by the pace of change.

"What was a $200 billion market until just recently is now looking more like a $1 trillion market," says Simon. "All of a sudden it's offshore wind versus natural gas, versus solar – what do you have and what is the best use of it? At €60/MWh with decent wind with a bit of track record, that's better than gas." He adds: "I'm encouraged by the amount of capital that is coming in. It's no longer five countries!"

And he's in a good place to take advantage of this market shift, having in March (2018) announced that he and fellow NRF Vincent Dwyer were setting up an advisory business based out of Australia providing services to the energy sector (strategic consulting and guidance, and transaction advisory services).

But it's so much more than the oil companies. IOC involvement is welcome as the scale of the offshore wind sector will be so vast and heavyweights will be needed at the table, but it runs beyond that.

"For me, the big take-away from COP 23 was that industrials are getting involved too," says Simon. "We are seeing the major industrials like thyssenkrupp – people who never really paid much attention to renewables – saying their future is not in combustion engines, it's in hydrogen electrolysers, wind turbines… whatever. They cannot sit there waiting for the Xerox moment."

With so much to be achieved and growing comfort with offshore wind, it's going to take companies with scale – ranging from re-branded IOCs through to global industrials – to deliver programmes.

In fact, with all these projects on the cards, everyone's welcome (fig leaf or not).