

# Too far, too fast, too furious

## Why oil majors retreating from clean energy doesn't spell trouble for the energy transition

**“We went too far, too fast”. These were the words from BP CEO, Murray Auchincloss, in announcing BP’s pivot back to oil and gas and cuts to its investment in renewables this week.**

**So where did they go from, why was it too fast, why are they going back, and does this mean the energy transition is in trouble?**

### Too far

Go back ten years and you would see the global energy supply chain broadly split into three verticals:

#### i. Upstream

Exploration and extraction of oil, gas and coal

#### ii. Midstream

Processing of these fuels in power stations to generate and distribute energy via the electricity and gas grids, and trading energy on international wholesale markets

#### iii. Downstream

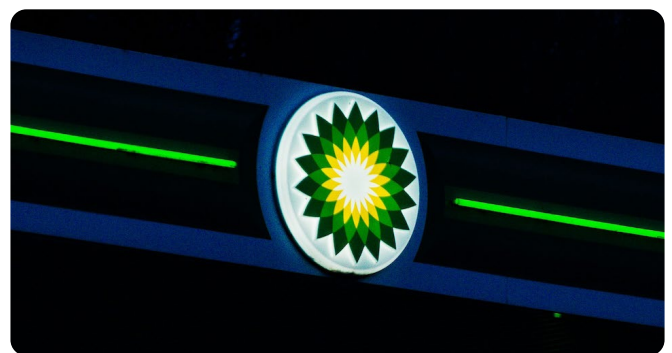
Retail supply of that energy to industry and consumers

Upstream was the domain of the oil majors like BP and Shell, with midstream and downstream dominated by utilities like the UK’s “Big Six” - Centrica, EDF, E.On, SSE, Scottish Power and RWE npower. Many of these companies were “vertically integrated”, meaning they operated across all three verticals, and had been born out of the privatisation of previously nationally controlled operation and infrastructure. Then from around the mid-2000s came two major fossil fuel demand disruptions:

The first was a growing awareness of climate change by international governments and associated regulations, policies and subsidies to address the cost challenges of generating cleaner energy.

And the second was increased competition in the downstream retail markets as new suppliers entered the fold, offering a combination of cheaper prices, better customer service and/or greener energy as renewables gathered pace.

Seeing attractive subsidies in the midstream, and growing consumer demand in the downstream, the oil majors recognised diversification opportunities (BP building on its 2000 rebrand campaign as “Beyond Petroleum”).



### Too fast

Thus came a flurry of mergers, acquisitions and joint ventures in offshore wind<sup>1</sup>, solar<sup>2</sup> and energy trading<sup>3</sup> – i.e. the oil majors were mobilising into the midstream.

But it didn't stop there; as industry and consumers started to pay more attention to energy spend, energy efficiency and new energy technologies the oil majors saw the next big

opportunity, buying energy supply companies<sup>4</sup> and electric vehicle chargepoint networks<sup>5</sup> – downstream they went.

You could argue they got there in good time. Fast forward to today and approaching a third of global electricity comes from renewables,<sup>6</sup> wind and solar have moved beyond subsidies to become the cheapest form of new generation capacity,<sup>7</sup> global sales of electric vehicles continue to grow,<sup>8</sup> battery energy storage growth tripled in 2023 alone<sup>9</sup> and digital energy trading is booming.<sup>10</sup>

However, in the intervening years the oil and gas majors have found out that scaling new businesses is hard, particularly when it's not your core business or area of expertise. It took them longer and cost them more to make money than their business plans assumed, and they were being out manoeuvred by new entrants working at lower cost and higher speed.

In upstream oil and gas, your customer base is dependent on buying your product to make and sell its own. The market barrier to entry is high and your size is your friend, because your balance sheet and track record provide the requisite security for large scale transactions.

In midstream generation and trading the competition is hotter, not just from the incumbents but from new entrants in a less defensible space. Your size means you might struggle with higher costs of capital and project opex to build a solar or windfarm, and your new competitors have more expertise in finding land sites, grid connections and offtake agreements.



In downstream your customer base has endless choice about who they buy their products from, and consumer rights and expectations are very different. Your size will often

go against you because your overheads are structurally high and your speed and agility are low – meaning high prices, low customer satisfaction and perhaps difficulty shedding an image of the greedy, uncaring corporate.

### **Too furious**

And the corporation brings us to the next challenge that always faced the oil majors in trying to compete in renewables and clean tech – the publicly traded nature of their businesses demanding immediate returns.

In many of the technologies and sectors driving the growth of the energy transition, the new companies emerging are often backed by private investors through Venture Capital or Private Equity. These investors are backing those companies in full knowledge that they may not be profitable in the early stages of establishing themselves in the market. That process may even take years. However, investors are willing to accept that in the expectation that those companies will become profitable, and in many cases highly so, once they've matured supply and demand for their products and/or services.

As the oil majors struggled to set up camp in their new markets there were two major global events that caused a global energy crisis – COVID and the Russian war in Ukraine. As global energy demand rebounded after lockdowns and Russia significantly reduced gas exports, the demand and profitability of upstream oil and gas started to upturn.

Struggling to provide returns in new markets, it's hardly surprising investors in oil and gas majors started to sometimes angrily question why they wouldn't recentre on their core.

### **Where now?**

And herein lies the crucial point – as the world operates today there is still need and demand for oil and gas. This isn't just for power stations to generate electricity, it's for other streams like heating buildings, transporting people and goods through road vehicles, shipping and aviation, and manufacturing of plastics, rubbers and chemicals.

But the economics of burning oil and gas for energy generation, particularly in global regions that don't have reserves of those resources, are fast being

left behind in favour of the generation, storage and distribution of cheaper and greener electrons from renewable sources, enabled by technology.

The next wave of the energy transition is the development of more electrotech so that those electrons can displace fossil fuels in the other streams - powering buildings, transport and industry, and shielding economies, industries and consumers from exposure to volatile international wholesale markets driven by geopolitical shocks.



That's not going to happen quickly in all areas, and there are still challenges to overcome. But, as technologies like solar, batteries and electric vehicles continue to fall in cost and their supply chains continue to develop, so technologies like heat pumps and low carbon fuels will follow. And private investors stand to reap the rewards for years, not just quarters, to come.

## Conclusion

Moving from a core business of offshore drilling and rigging to onshore electrical technologies, and from a customer base of multinational power producers and traders to retail energy consumers, the oil majors always looked like a square peg trying to work out the shape of the new hole.

It may have been too far and too fast for the likes of BP, but that should be seen as a market correction, not a market failure - the energy transition is continuing with or without them, and they're retreating while they still have a core market to go back to.

Early to the party, they're leaving as it's just getting started.

<sup>1</sup>[BP and Equinor form strategic partnership to develop offshore wind energy in US](#)

<sup>2</sup>[Lightsource BP - Our Story](#)

<sup>3</sup>[BP acquires AI-driven energy optimisation business Open Energi](#)

<sup>4</sup>[BP to acquire retail power and gas provider as it shifts into broader energy](#)

<sup>5</sup>[BP to acquire UK's largest electric vehicle charging company](#)

<sup>6</sup>[World passes 30% renewable electricity milestone](#)

<sup>7</sup>[Renewable Power Generation Costs in 2023](#)

<sup>8</sup>[Global electric vehicle sales up 25% to record 2024](#)

<sup>9</sup>[Global energy storage market records biggest jump yet](#)

<sup>10</sup>[The Global Market for Digital Power Utilities Forecast to 2029](#)

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