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# TRANSITORY ERA IN ENERGY: FROM GREY TO GREEN

“Whilst hydrocarbons and economic growth announced their break-up at COP21, who will adjust and who will benefit?”

**C**OP21 in Paris does not herald an unprecedented transitory period, but instead a reversed one. The 20th century of oil-fuelled navies, coal-fired factories and grey clouds can be summarised as the marriage of hydrocarbons and economic growth.

However, the shale revolution resulted in a hydrocarbon glut around the world. The demand increase cannot catch up with the oil excess because of the increasing energy efficiency in developing countries. The growth of coal is slowing down in favour of renewables and natural gas. As “grey” is reversed to “green”, we are entering a new energy cycle. Whilst hydrocarbons and economic growth announced their break-up at COP21, who will adjust and who will benefit?

## Who adjusts?

The oil-asset-dependent nations will have to adjust the most. The OPEC countries suffer from melting fiscal incomes, recession risk, and even bankruptcy. The reversed cycle will force them to diversify their economies, introduce income taxes and even austerity measures. The oil-importing OECD countries have already been more willing to adjust and decarbonise their economies. The EU is pioneering efficiency policies, regulations and decoupling the economy from fossil fuels.

Oil companies are the biggest private actors to adjust. They have already ceased high-cost oil exploration activities, reduced the

number of staff, and emphasised downstream for positive cash flows.

With the US giant Peabody having gone bankrupt, the coal industry will be the second private actor to adjust. The demand of the Chinese middle class is shifting from coal to gasoline and renewables. The growth of coal demand is less than a fifth of its rate over the past 20 years, and prices have been very low in the last two years. Given the IEA World Energy Outlook, coal will arguably not beat carbon prices/taxes once the cycle is completed.

#### Who benefits?

Due to the lowering of renewable

prices, being climate-friendly is "less expensive". Photovoltaic panels are cheaper and BP predicts that renewables will represent 16% of the world's power generation by 2035. The companies generating electricity from renewables will offset their capital expenditures with favourable climate change policies. Also, hybrid engine and electric car producers like Tesla Motors will help decouple transport from gasoline.

The gas glut is integrating regional gas markets with abundant, cheap and low-emission LNG spot cargoes. BP forecast that the LNG market will represent 15% of the global energy demand by 2035. US LNG exports

also have a multiplying and maturing effect over the gas fields in the Eastern Mediterranean, Black and Caspian Sea. So, gas is "the" transitory fuel of the reversed cycle.

Although fossil fuels will continue to be here for the foreseeable future, the correlation between world GDP growth and energy usage is eroding. In fifty years, fossil fuels will arguably reach their lowest share since the industrial revolution. ●

#### References

- BP Energy Outlook 2016
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- IEA World Energy Outlook 2015

Companies generating electricity from renewable sources such as solar will be able to offset their capital expenditure with favourable climate change policies

