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The Trades



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When Texas freezes over – the end of 'Big Oil'?

by Cranley Macfarlane

Last week Texas, the state synonymous with oil, found itself in the middle of both a polar storm, and the ongoing debate around climate change. The coldest weather in a century left millions of Texans without electricity or heating in temperatures of -14 degrees. A huge spike in demand coincided with a drop in supply as nuclear and gas-fired power stations shut down because of frozen pipes, and wind turbines were frozen still. For some the extreme weather was irrefutable proof of man-made climate change that needs to be addressed; for others it demonstrated that renewable energy cannot be relied upon to meet our basic energy needs.

The power outage in Texas happened to occur the week after one of the world's largest oil producers, Royal Dutch Shell, declared we are past 'peak oil' in a major strategy shift. In 2016 Shell began to move its focus away from oil to cleaner natural gas through its acquisition of BG

Group. It now plans to reduce oil production by about 20% by 2030, and to ramp up its investment in green energy from around \$3bn this year. With this and other measures it aims to reduce the impact of carbon emissions and reach net zero by 2050. In recent weeks BP and Total have announced similar intentions, signalling that Big Oil is serious about the energy transition.

Unsurprisingly, the changes Shell announced have not made it the darling of environmentalists overnight, with criticism that the company is changing course at the same speed as one of its oil tankers. And here lies the difficulty at the centre of the energy transition debate that we as investors must grapple with. Should Shell be punished for producing the energy we require as we transition away from fossil fuels, or should they be supported as they become one of the largest investors in green energy and the reduction of carbon emissions?

The debate around carbon reduction is not straightforward and is full of contradictions. Take for example Tesla, who announced this month that it will accept bitcoin as payment. Aside from giving a handy boost to the value of its recent \$1.5bn investment in the

cryptocurrency, this demonstrated to many its progressive, anti-establishment ethos as a leader of the 'green revolution'. What does it matter that the amount of electricity required to mine Bitcoin is now estimated to be greater than that consumed by Argentina, and is presumed to come mainly from coal-fired power stations in China?

While the politics of climate change remain complex, the call for action will rightly only grow louder, helped by the US rejoining the Paris Climate Agreement. We at Tellsons believe that some of the largest companies in the world have an obvious role to play, even if they are not the greenest of green. The firepower they have can engender real change and complements the specialism of those companies we own who solely focus on developing new technologies to accelerate the carbon transition.

If you would like to know more, we have written a research piece detailing the different ways that companies we invest in from across a range of sectors are responding to this challenge –

[Powering a way to the 'zero carbon' future.](#)