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Q&A-Demand for oil to peak within five years; Expect more M&A, joint ventures from "big oil" to achieve renewables targets: Gero Farruggio, Rystad Energy



Demand for oil will likely peak within the next five years, and that will provide enough incentive for oil-rich countries to further embrace renewables, **Gero Farruggio, head of global renewables at Rystad Energy** told the Reuters Global Markets Forum on Wednesday, May 5.

Big oil companies have built a portfolio of utility renewables of over 65 gigawatts (GW), but that falls short of individual targets from companies like British Petroleum (BP) and Total, Farruggio said.

"We can expect further mergers and acquisitions from big oil and, more importantly, joint ventures to achieve their targets."

Farruggio said he expected utility solar, offshore wind and hydrogen power to be the "three pillars of growth" for big oil companies going forward.

Following are edited excerpts from the conversation:

Q: The promises we have seen in Earth Summit are by and large extremely distant targets -- will there be a surge in green-energy installations to meet targets halfway?

A: It is an interesting question, these targets while they gain headlines, I am not sure they are driving investment today. We were already experiencing strong growth in renewables - last year saw some 30% increase in capacity commissioned. And this year will exceed that.

Q: What is primarily driving those investments?

A: Primarily cost declines, in solar, wind and batteries. Also, the growing need to decarbonize, with corporations seeking cleaner energy sources. And finally, financial institutions' risk of exposure to fossil fuels.

The energy transition is moving at pace, you could say governments have just jump(ed) aboard. Take the U.S. for example, some promising developments in recent months. But last year was a record year for utility renewables and this year will be also.

Q: When do you expect peak oil demand? And how are oil majors poised to adapt to this transition?

A: Peak oil demand is closing in; it has been debated for some years but now there seems to be more consensus it is upon us. Rystad expects peak oil will be achieved within five years. Big oil has built a portfolio of utility renewables in excess of 65 GW to date. But this still falls well short of individual targets from companies like BP and Total.

We can expect further M&A (mergers and acquisitions) from big oil and - more importantly - JVs (joint ventures) to achieve their targets. The three pillars of growth being utility solar, offshore wind and hydrogen.

Q: What would you see as the major milestones for a transition to renewables in the larger mid-century zero-emissions goals?

A: We often look at today's energy system and ask how it will evolve over time. We know the size of the pie will be bigger as we enter a new era of electrification technologies. EVs (electric vehicles) and potentially green hydrogen will increase our thirst for energy. We know the power mix will be clean - with solar, offshore wind and carbon capture investment growing at real pace.

What we don't know is whether this transition will be a soft evolution - or indeed a revolution over the next 5-10 years.

Q: As solar, wind and other renewables are deployed more widely, will parallel infrastructure keep pace?

A: This is the key question as it will not be a smooth ride for renewables. We need to see urgent investments in the power networks. Then, as more renewables enter the grid there will need to be security and resilience of the system. Batteries can deliver this - here is where governments need to show initiatives today. Is the regulation and framework in place for things like frequency control?

Q: Could nuclear energy become more of a focus, or is its public perception too much to overcome at this point?

A: Again, economics will be the drive here, I believe, ultimately. Existing plants have low operating expenses and are cheaper sources, but new ones are multiples above where solar and wind are today.

Q: How do resource-dependent nations like Russia position for a greener future? Do they work to internally trim resource use (like Norway has) to allow for a bigger exportable surplus?

A: Russia isn't on the map when it comes to renewables. Norway, on the other hand, is well positioned to be a global leader in the export of green hydrogen with its abundant hydro generation providing the opportunity for high electrolyser utilization.

It is an interesting question, what will Australia do with all its coal? Both federal and state governments in Australia are doubling down on green hydrogen, which I believe answers that question. It wants to maintain its position as a global leader in the energy export business and looking ahead.

Q: What steps could incentivize more clean energy research and development in oil-rich and developing countries?

A: Oil-rich countries need no more incentive than peak-oil within reach. We have already seen the Middle East embrace renewables also at oil and gas scale – billion-dollar projects. Scale is a key driver attracting upstream companies and oil-rich nations towards renewables. Emerging economies are driven by low-cost power, which is why we are seeing some rapid adoption rates here also.

Q: How much of a role do you see natgas playing in the transition?

A: Natgas will be key in the transition from coal. So, expect a boost in the short-term. But ultimately it is not experiencing the cost declines of solar and wind, and this will put pressure on natgas over time. But I should add, where natgas makes sense -- like grid firming -- it will need to be green.

Q: How much impact will "green bonds" have on attracting investments? And what improvement is needed in vetting them?

A: Financing and investment in renewables is something there is no shortage of. We will look back on 2020 for some years to come as a pivotal year for utility renewables growth. COVID-19 has served as a catalyst for a faster transition, despite the many challenges it presents also. The one challenge I would add being - there will be growing pressure for renewables to be sustainably manufactured, installed more, or of growing importance, recycled and decommissioned.

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