



Clean Energy Transition: Oil & Gas

Growth of renewables presents both opportunity and threat

75% of EU's greenhouse gas emissions come from energy use and production. Decarbonising the energy sector is, therefore, a central aim of the EU's Green Deal, its strategy to achieve climate-neutrality by 2050. This includes supporting the uptake and development of cleaner energy sources (including renewables and hydrogen), while phasing out dependence on fossil fuels.

Progress towards the decarbonisation of the energy sector is being made. According to recent data from the Centre for Research on Energy and Clean Air, (CREA) the EU's CO₂ emissions from fossil fuels have dropped to the lowest levels since the early 1960s. More than half of this is due to an increase in the production of electricity from renewable sources (wind, solar and hydropower) as well as from nuclear. In addition, gas-related emissions have declined by 11% year-on-year and oil emissions by 2% over the same period.

So how will the oil and gas industries navigate the coming years? Our industry specialists in Spain echoed the view of other underwriters across Europe when they said: "Transitioning to clean energy presents significant opportunities for oil & gas companies such as boosting innovation, diversifying energy portfolios, accessing new markets, enhancing brand reputations, and contributing to economic growth and environmental sustainability".

However, they acknowledged that clean energy transition is not a simple journey and is likely to bring uncertainty, dilemma and the need for adaptation.



EU Plan's and aims

In line with the EU's decarbonisation aims, some large oil and gas companies are set to make a switch to 'energy' companies that supply a diverse range of energy services, particularly electricity. Several already generate energy from a combination of renewables and fossil fuel sources. Our underwriters in Belgium, France, Spain and Poland acknowledged the opportunities this presents within their markets, including the possibility of expanding into other product and service areas and a potential way to manage transition risks.



Green Deal

An EU aim to become the world's first climate neutral continent (by 2050) through a series of measures covering the climate, environment, energy, transport, industry, agriculture and finance.



Fit for 55

An EU target to reduce net greenhouse gas emissions by at least 55% by 2030.



RePowerEU

An EU plan to reduce dependency on Russian fossil fuels and accelerate the transition to clean energy through increased energy efficiency and renewables production.

What do Atradius underwriters see as the primary issues for the sector in the region?

When asked about how clean energy transition could impact the oil and gas industries, our underwriters were largely upbeat. While still expressing their tendency to be cautious, a significant proportion pointed to the opportunities that clean energy transition presents to the industry. Our underwriters in Hungary and Poland expect to see more gas and oil companies actively reducing greenhouse gas emissions over the next few years, with Hungary also noting the potential for greater exploration of the circular economy.

Our underwriters in Germany said: "Potential opportunities lie in investing in clean energy technologies, diversifying energy portfolios, embracing digital innovations for efficiency, exploring sustainable practices and adapting to evolving market demands through strategic partnerships and collaborations."

For those that saw opportunities for the industry, most pointed to the importance of diversification. Our industry specialists in Poland said: "Oil and gas companies are using opportunities to offer clean energy from photovoltaics, wind farms, hydrogen, and other sources as well as developing charging and storage infrastructure."

While the cost of transition was noted as a potential challenge, geopolitical issues were highlighted as significant by the majority of underwriters we spoke to. This included representatives from the Netherlands, Belgium, Spain, Austria, Switzerland, the Czech Republic, Slovakia, Ireland and Turkey who all strongly agreed that geopolitical tensions have had a significant impact on the energy market since the beginning of the Russian-Ukraine war.

Ensuring electricity grids and battery storage are ready to cope with increased production from renewables is also a challenge noted by several of our specialists. In addition, many cautioned that as fossil fuels remain the only reliable and affordable energy option in many markets, this could impact on business decisions concerning clean energy transition.

Challenges: What are the most urgent challenges for the sector over the next three years?

1. Geopolitics

Geopolitical tensions have had a significant impact on the energy market since the outbreak of Russia-Ukraine war. For many the focus shifted from investing in clean energy to insuring supply amid energy insecurity.

2. Regulations in the context of a global stage

While many businesses applaud the EU's leading role in driving for net zero by 2050, others are concerned about their operations on the global stage and how to thrive or even survive on an unequal playing field.

3. Closing gaps in infrastructure

Infrastructure issues present a potential challenge to clean energy transition for oil and gas markets. Current infrastructure including gas pipelines and oil tanks for the storage and transportation of oil and gas is not suitable for electricity produced by renewables. Careful transition planning will need to include the development and expansion of electricity storage (batteries) and transmission (national and international grids).

Opportunities: What are the greatest opportunities for the sector over the next three years?

1. Diversification

Demand for clean energy is high. Businesses that can diversify beyond oil and gas into renewables and clean energy are likely to enjoy many opportunities for growth.

2. Enhanced brand reputations

Consumers are increasingly demanding clean energy solutions. Businesses that invest in clean energy transition can enhance their brand reputations and leverage that for improved growth opportunities.

3. Opportunities for funding and investment

Oil and gas businesses looking to expand their portfolios to include clean energy transition may be able to unlock EU and national government funding and other incentives, as well as other sources of private investment.

Where next?

There are still many uncertainties facing the industry. When asked to look ahead, our industry specialists in the Netherlands expressed caution and noted how legislation is likely to play an important role. They said: "Without the pressure of legal enforcement and the creation of a level playing field, nothing will shift significantly in the next 3 to 5 years, as the earning capacity for oil and gas is still too large."



Connect with Atradius
on social media
[youtube.com/user/atradiusgroup](https://www.youtube.com/user/atradiusgroup)
[linkedin.com/company/atradius](https://www.linkedin.com/company/atradius)

Atradius
David Ricardostraat 1
1066 JS Amsterdam
P.O. box 8982
1006 JD Amsterdam
The Netherlands
Phone: +31 (0)20 - 553 91 11

info@atradius.com
www.atradius.com