Is the Energy Sector Ready for the Next Big Change?

Description

The challenges for the global energy industry appear far from over. The year 2021 brought some optimism for the sector when crude oil prices breached US$65 a barrel after plunging into negative territory last year. However, as Big Oil executives were busy streamlining their operations amid the pandemic this year, the recent International Energy Agency (IAE) report has put forth an even bolder task for them.

The energy sector and the net-zero emission target

According to IEA, the world will not need new oil and gas projects beyond what we have currently to reach the net-zero emission target by 2050. For those who are unaware, net-zero emission means to even out the greenhouse gas produced with a similar amount of greenhouse gas removed from the atmosphere. The report suggests that all the new investments in the energy sector should be made in the form of renewables and alternative fuels.

Canadian energy titan **Suncor Energy** (TSX:SU)(NYSE:SU) aims to trim its greenhouse gas emissions by a third by 2030. It will rely on carbon capture technology and is building a wind farm to achieve the target.

Many oil majors, including Suncor, have been reluctant to increase their production targets this year, despite the optimism in the energy markets. They intend to focus on improving their balance sheet strength and replenish the dividend cuts of the pandemic era.

Canada's biggest oil sands producer Suncor Energy will produce around 760,000 barrels per day in 2021, lower than its 2019 levels. Like Suncor, many big oil companies do not look eager to raise their production for the next few years. The clampdown on energy supply is coming at a crucial time when the demand is expected to soar post-pandemic.

The oil and gas industry leads to major GHG emissions

The energy sector generates around 75% of total greenhouse gas emissions today. Coal, oil, and gas still form the major sources of global power generation. While renewable energy and electric cars have been there for decades, their market reception has been insignificant.

The IEA's recent aggressive approach has received support as well as equal criticism. However, if seriously followed by all the stakeholders, the move could lead to higher corporate investments in the renewables space. This, in turn, will make them more cost effective, ultimately leading to favourable economics.

However, the transformation from fossil fuels to clean energy will not be all that smooth. Indeed, it poses several critical challenges like energy security and the extraordinary demand for metals needed for clean energy.

Suncor Energy's aggressive target to reduce emissions will likely force its peers to follow suit. Canada's third-largest energy company, **Imperial Oil,** announced last year that it has achieved a 20% greenhouse gas reduction since 2013. It aims to reduce further 10% by 2023.

The Dutch court recently ruled that **Royal Dutch Shell**'s plan to reduce emissions by 20% by 2030 is not sufficient. The court slapped a new target of reducing emissions by 45% by the end of the decade.

Bottom line

Interestingly, the energy sector has been the top performer in the market, more than doubling since last year. However, if you are an ultra-long-term investor in oil and gas, you may have to reconsider. The pivotal point where the world moves from fossil fuels to alternatives could be nearby.

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