# Case # 2EZ. BP Slows Transition to Renewable Energy Despite Record Profits

**The following is an excerpt from an article that appeared in the Wall Street Journal on 7 February 2023, entitled, ”BP Slows Transition to Renewable Energy as Oil Bonanza Continues.”**

Yesterday, BP said it would slow its shift to lower-carbon energy, increasing spending on the oil-and-gas production that helped push the company to a record profit last year.

BP is capitalizing on soaring energy prices, and the company’s strategic shift highlighted how fossil fuels continue to be the profit drivers for the industry’s biggest players.

“At the end of the day, we’re responding to what society wants,” Chief Executive Bernard Looney said on Tuesday morning.

BP said its underlying replacement-cost profit for the quarter, a metric similar to net income that U.S. oil companies report, was $4.8 billion, compared with $4 billion in the year-ago period.

BP’s full-year profit was $27.7 billion by the same measure, compared with almost $13 billion for 2021 when BP swung back from early pandemic losses.

BP shares gained more than 5% in early trading on Tuesday.

Under Mr. Looney, who took over as CEO of the London-based company three years ago, BP embarked on one of the industry’s most ambitious pivots away from fossil fuels and toward renewable–energy sources.

BP said on Tuesday that it now aims to reduce fossil-fuel production by 2030 by around 25% from 2019 levels. That compares with its previous aim to cut that output by 40% during the same period.

The Wall Street Journal reported last week that Mr. Looney was planning to dial back elements of the company’s push into renewable energy. Mr. Looney has suggested to people close to the company that it needs to do more to assure investors it can deliver strong returns in renewable and low-carbon energy while also maintaining oil-and-gas profit, even with planned production cuts, the Journal reported.

In explaining the pullback, Mr. Looney said the world is more focused on energy security and costs than it was before Russia’s war in Ukraine. More fossil fuels will be needed for longer to manage the global shift to lower-carbon energy, he said.

BP said it would boost its investments in renewable sources while also increasing its oil-and-gas investments.

The company said it aims to increase investment by as much as $1 billion a year through this decade in each of two pillars: oil-and-gas production, and what it calls transition growth engines including bioenergy, hydrogen and electric-vehicle charging networks. That spending of up to $16 billion is in addition to previous targets in those areas.

“We are leaning into the strategy,” Mr. Looney said, adding that BP’s dual investment tracks respond to green-energy needs as well as continued fossil-fuel demand. “Look at what governments around the world are saying: We want more investment to get supply today,” he said.

Mr. Looney said BP is responding to unforeseen shifts in the global energy flows over the past year. “We should acknowledge that when we announced our production targets, we didn’t expect to have 1.1 million barrels a day from Russia disappear from the system overnight,” he said.

The slower reduction of oil-and-gas production will also slow BP’s progress in cutting emissions from those operations. It said it is now aiming for a 20% to 30% reduction by 2030 in carbon emissions from fossil-fuel production compared with 2019 levels. BP previously said it was targeting a 35% to 40% carbon-emissions cut from those businesses in the same period.

BP on Tuesday increased its dividend by 10% for the fourth quarter and said it would buy back another $2.75 billion in shares, bringing its full-year buybacks from surplus cash to $11.25 billion.

The choice to hold on to more oil-and-gas production for longer should bolster earnings with “a much more stable profile than previously anticipated,” RBC Capital Markets analyst Biraj Borkhataria said in a research note Tuesday morning.

BP’s almost $28 billion in profit for last year topped the company’s previous record of $26.2 billion in 2008 amid soaring oil prices.

BP’s past 12 months were marked early on by the company’s February 2022 decision to exit its Russia holdings following Russia’s invasion of Ukraine. That choice was one of the first by Western companies in a swift cascade of moves to isolate Russia.

The Russia exit resulted in a $25.5 billion accounting charge in BP’s first quarter. But the company largely shrugged off that hit, exceeding analyst expectations in that and subsequent quarters on underlying operating results.

BP’s results follow U.K. rival Shell’s reporting last week of record full-year 2022 profit of $42 billion, measured on a net current-cost-of-supplies basis—a figure similar to the net income that U.S. oil companies report. Shell’s results were boosted by strong performance in its liquefied natural-gas business, which benefited from soaring global demand after Russia cut off pipeline gas supplies to Europe.

BP and Shell have struggled to convince some investors that their plans to transition away from oil and gas by spending more on lower-carbon energy will pay off.

**CASE QUESTIONS**

**1. Create a supporting argument for and against each of the following assertion:**

**a. (2) BP is making the right decision.**

**b. (2) Because BP has recorded record profits, there is no logic in its transition away from the previously announced aim to cut fossil-fuel production by 40% by 2030.**

**Focus on the information above. Do <u>not</u> go to other on-line sources.**

**Be sure to explain the basis for your positions.**

**Maximum word length: 200 words**