A radical outlook needs strategy to match

By 2035, renewables (solar and wind) will account for more than 50 per of global powergeneration; electric vehicles will be the low-cost option for car, van and small-truck drivers; oildemand will be declining; and gas demand will have peaked. Total energy demand will beplateauing despite a growing global economy and a still-rising population.This is not, as you might imagine, the latest summary of aspirations from a campaign group suchas Greenpeace or Friends of the Earth. Nor is it an ambitious claim by one of the renewables tradeassociations. In fact, all the statements above are drawn from a serious, considered projectionproduced by McKinsey, the global management consultancy.The quality of the McKinsey energy outlook for 2019 lies in its internal consistency and the clarityof its conclusions. The view presented is simple but entirely credible because of how it isconstructed. The authors justify each judgment with a logic that is built on a bottom-up forecast,region by region and sector and sector.

Crucially, the study is based on economics rather than public

policy. This is not a thesis about what could or should be, but a description of how the trends that are already evident are likely to evolve.Policy can certainly support and accelerate the trends but very little in this projection is dependenton government decisions.The key is the falling cost of renewables, which are set “to become cheaper than existing coal andgas in most regions by 2030”, McKinsey says. That will encourage electrification across the globaleconomy, driving efficiency by replacing less productive forms of supply.The authors resist making too many guesses about the implications of their projection, but it isimpossible to escape the conclusion that increasing supply and peaking demand will lead toconsiderably lower prices. Much coal, gas and oil will be stranded – not because of a carbon tax orany other climate-driven policy initiative but simply because the market is saturated.

If renewables are set to supply 50 per cent of the global power generation market by 2035 (BP in itsown recent long-term projection sees the same trend and predicts a 50 per cent share by 2040),how much could they take by 2050 and where does that leave the hydrocarbons business?Oil – and to some extent natural gas – can find an alternative market in petrochemicals but thelong-term outlook is for steady decline. Tellingly, nuclear – a legacy industry made uncompetitiveby renewables especially as storage technology advances – is barely mentioned.But McKinsey’s radical outlook does not suggest that the problem of carbon emissions and therisks of climate change will be easily resolved. Hydrocarbon consumption on this projection is stillhigh enough to keep emissions rising. If the climate models of the Intergovernmental Panel onClimate Change are correct, atmospheric carbon concentrations will continue to grow and the risksof serious climate disruption will remain.

Change is coming too late and too slowly to preventtemperatures rising and extreme weather conditions

becoming more common.Over the next 20-30 years the energy business is set for an industrial revolution. The 20th-centuryenergy economy, centred on coal and oil, is giving way to something very different. And thistransition has ceased to be a matter for the distant future or something that can be pushed off byindustry leaders to the next generation of executives.The complacency that smothers hard thinking in most of the major energy companies is outdated.In an industry that thinks on a 20-year horizon, 2035 is within the immediate planning horizon.The revolution is happening now. Establishing a corporate strategy for producing value in verydifferent market conditions should be a priority for all in the sector.We are entering the season when energy companies produce their annual reports and hold theirAGMs. Shareholders, large and small, would be well advised to ask the managers and nonexecutiveswho work for them to set out in detail their plans for the transition. I would be delightedto publish a collection of the answers.