

# Total starts biofuel plant in France to take on Eni and Neste



Total SA started production at a new biofuel plant in southern France, taking on rivals such as Neste Oyj and Eni SpA for a share of Europe's biodiesel market. The refinery, in La Mede near Marseille, will process vegetable oil, animal fat and used cooking oil to produce as much as 500,000 tonnes a year of so-called hydrotreated vegetable oil, or HVO, which is blended by distributors with diesel to meet government biofuel requirements.

However, the project has been criticised as it will use palm oil for almost half its main feed-stock at the start. "Our biorefinery will allow us to make biofuels in France that were previously imported," Bernard Pinatel, Total's head of refining and chemicals, said on Wednesday in a statement in

which he championed the role of biofuels in cutting carbon emissions. In a September report, Total said it wanted to take more than 10% of the European market for HVO production. It has spent €275mn (\$310mn) since 2015 transforming the unprofitable La Mede oil refinery into a biofuel plant, a conversion similar to one carried out by Italy's Eni in Venice. Finnish companies including Neste operate the most HVO capacity in Europe. Total's refinery has been controversial for its planned use of palm oil, whose production in countries such as Indonesia is slammed by environmental groups for causing deforestation.

Use of the oil also denies Total French tax breaks that apply to other renewable fuels, meaning the facility can't compete with European peers, Chief Executive Officer Patrick Pouyane has warned. The oil major has lobbied the government for a change of stance on the tax break, arguing that it's working with palm-oil producers that are certified under a European Union system that tracks sustainable practices and respect for human rights. Total's plant will use as much as 300,000 tonnes of palm oil a year, and at least 50,000 tonnes of French-grown rapeseed. An analysis by the Palm Oil Transparency Coalition shows European palm-oil importers are unlikely to be able to ensure that the products they sell are "deforestation-free" by a self-imposed goal of 2020. Only about a third of the palm oil imported into Europe by the survey respondents could be traced to the plantation it came from, according to the report.

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## **Tesla in talks with LG Chem**

# on battery supply in China



Reuters Seoul/Shanghai

US electric vehicle maker Tesla Inc is in advanced talks with South Korea's LG Chem Ltd to source batteries for vehicles to be made in its Shanghai plant, a person familiar with the matter said.

The move represents a push by Tesla to diversify sources of the key component for its electric vehicles from its exclusive supplier, Japan's Panasonic Corp.

Another source said LG Chem agreed to supply batteries for Tesla's China plant, without elaborating.

LG Chem is expanding its China battery capacities and modifying some manufacturing facilities in Nanjing to make a different type of auto battery, according to the first source. The company currently mainly makes pouch-type auto batteries, but as a major battery maker, it is not hard for it to revamp facilities to make cylindrical auto batteries that Tesla uses, the source and separate people familiar with the matter added. The source said Tesla is still likely to use Panasonic batteries in the initial phase of production and source from other suppliers including local names in the future. A third

person said Tesla may source batteries from CATL later, as the Chinese battery maker does not have much experience in making cylindrical batteries used by Tesla.

All of the sources declined to be identified because of the confidentiality of the deal.

Tesla did not immediately respond to Reuters' request for comment.

LG Chem and CATL declined to comment. Tesla chief executive Elon Musk said in November the US company would manufacture all its battery modules and packs at the Shanghai factory, which will make Model 3 and Model Y cars, and planned to diversify its sources.

LG Chem has signed battery material supply agreements with China's Huayou and Tianqi, as the South Korean battery maker is trying to expand its foothold in China.

It said it would set up a joint venture with a unit of China's Geely on batteries.

China has scrapped its so-called "white list" of recommended battery suppliers, which did not include foreign firms when it was first published in 2015 to spur a domestic battery sector, a decision foreign companies said could open up the world's biggest market for electric vehicle batteries.

Panasonic has said it could supply batteries to Tesla's Chinese plant either from Japan, the United States or China

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## **LG Chem set to build 2nd US EV battery plant, say sources**



Reuters/Seoul/Detroit

South Korean electric vehicle (EV) battery maker LG Chem is considering building a second US factory, three people familiar with the matter said, accelerating a race to add capacity to meet growing global demand for green vehicles.

LG Chem, one of the leading EV battery makers in the world that counts General Motors and Volkswagen among its customers, is weighing investing about 2tn won (\$1.70bn) in the plant that could begin production in 2022, one of the people said.

Kentucky and Tennessee are among the candidates for the plant's site, the person said.

A decision on the plant's site is expected to be made by the end of this month, another person said.

Automakers are pushing ahead with billions of dollars in investments in electric vehicles to meet global regulatory requirements.

A new plant by LG Chem would come as South Korean companies have stepped up US investments, moves that have been praised by US President Donald Trump.

LG Chem's new factory would primarily supply to Volvo, Fiat Chrysler Automobiles, and potentially to Hyundai Motor, GM and Volkswagen, one of the people said.

LG Chem, the most valuable company of the LG conglomerate, said in a statement issued to Reuters it is reviewing various ways to meet its global clients' orders, but there are no concrete plans at the moment.

The sources declined to be named as the plan is confidential. A second US plant would come amid a growing rivalry between LG Chem and crosstown rival SK Innovation, which recently broke ground on its \$1bn US EV battery plant to primarily supply to Volkswagen.

Earlier this year, LG Chem sued SK Innovation in the United States for alleged theft of trade secrets by hiring its former employees.

"We are currently pursuing another production base," LG Chem's new CEO Shin Hak Cheol told reporters this week, without elaborating on the country.

Electric vehicle sales are projected to reach 1.28mn vehicles by 2026 in the United States alone, compared with less than 200,000 in 2018, according to market researcher IHS Markit.

Trump praised US investments by SK, Lotte Group and other South Korean conglomerates and raised hopes that Korean companies will continue to expand in the US. "Thank you very much. Congratulations. It's a great job," he said during his meeting with South Korean business leaders in Seoul on June 30.

The participants included group holding company LG Corp's vice chairman Kwon Young Soo.

LG Chem, the battery supplier for GM's Bolt, currently operates an EV battery plant in Michigan.

LG Chem also has production bases in South Korea, China and Poland.

It drew attention during the groundbreaking of its first US production facility in 2010, when former president Barack Obama travelled to Michigan for the event. LG Chem is also being wooed by the government of South Korean President Moon Jae-in to build a new domestic factory to create jobs – one of Moon's top priorities.

CEO Shin said LG Chem is in talks to build a production

facility for cathode materials used in EV batteries in the southeastern city of Gumi in South Korea, but details have not been finalised.

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## Climate Changed Turbines in Landfill Trigger Debate Over Wind's Dirty Downside



Wind turbines may be carbon-free, but they're not recyclable.

A photograph of dozens of giant turbine blades dumped into a Wyoming landfill touched off a debate Wednesday on Twitter about wind power's environmental drawbacks. The argument may be only beginning.

Fiberglass turbine blades – which in some cases are as long a football field – aren't easy to recycle. And with BloombergNEF expecting up to 2 gigawatts worth of turbines to be refitted this year and next, there could be heaps more headed for dumps.



A technician repairs a wind turbine blade in Adair, Iowa.

Photographer: Daniel Acker/Bloomberg

Cynthia Langston, solid waste division manager for the city of Casper, declined to say where the turbine debris came from. But she's happy to have it. The 1,000 blades will bring in about \$675,000 for the landfill, helping keep trash costs low for local residents. Plus, Langston said, wind-farm junk is less toxic than other garbage.

"It's much cleaner than the contaminated soil and demolition projects from the oil and gas industry," Langston said in an interview. "These are about as non-toxic as you can get."

Wind turbine blades represent a "vanishingly small fraction"



of overall waste in the U.S., according to the American Wind Energy Association.

Sachin Shah, chief executive officer of one of the world's largest clean-power operators, Brookfield Renewable Partners LP, said "there will be an aggressive effort to re-use materials" in the years ahead.

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## Airlines scramble to overcome polluter stigma



Reuters Seoul/Stockholm/London

In Lorna Greenwood's London home, there is a shelf lined with travel guides.

But the 32-year-old mother and former government employment lawyer has given up flying.

Greenwood, who grew up enthralled by the possibilities offered by plane travel, is part of a growing group of environmental

activists in Northern Europe who are shunning flights as concerns about global climate change increase.

"It's a tough pill to swallow, but when you look at the issues around climate change, then the sacrifice all of a sudden becomes small," Greenwood said.

A Swedish-born anti-flying movement is spreading to other European countries, creating a whole new vocabulary, from "flygskam" which translates as "flight shame" to "tagskryt," or "train brag."

A number of famous Swedes have stopped flying, including opera singer Malena Ernman, the mother of teenage activist Greta Thunberg who has thrust climate change into the spotlight.

"Flygskam" was a major topic at a three-day airline summit in Seoul this weekend, with global industry leaders launching a counter-offensive.

"Unchallenged, this sentiment will grow and spread," Alexandre de Juniac, head of the International Air Transport Association (IATA) told some 150 CEOs.

The industry says it is shrinking its carbon footprint and its sustainability plan is among the most ambitious and globally focused of any industry.

"Come on, stop calling us polluters," de Juniac said at a news conference after detailing the global initiative.

The IATA said the CO2 emission for each CEO's flight to Seoul was half the amount of a 1990 flight, largely thanks to more fuel-efficient aircraft.

Commercial flying accounts for about 2.5% of global carbon emissions today but without concrete steps, that number will rise as global air travel increases.

The aviation industry has set out a four-pronged plan to achieve carbon-neutral growth from 2020 and halve net emissions from 2005 levels by 2050.

But airline leaders acknowledge they have struggled to articulate their plans in a way that resonates with the public.

When CNN anchor Richard Quest asked a room full of aviation executives whether they had used an often available booking

option to offset emissions from their own flights to the South Korean capital, only a handful raised their hands.

The industry's plan rests on a mix of alternative fuel, improved operations such as direct flight paths and new planes or other technology.

But a widely publicised March study funded by investors managing \$13tn said airlines were doing too little.

"If we as an industry can provide better, more concrete answers...people will start to feel more comfortable that airlines are serious about this commitment," JetBlue CEO Robin Hayes said in an interview.

Questions remain over how airlines will slow, steady and finally reduce harmful emissions.

Use of sustainable-fuel would have the single largest impact, reducing emissions from each flight by around 80%, according to the IATA.

The problem is that it is in short supply.

"The reality today is there's just not enough and it's too expensive," KLM CEO Pieter Elbers told Reuters.

KLM last week announced a deal to develop and buy biofuels from Europe's first sustainable aviation fuel plant, due to open in 2022.

Still, the IATA targets 2% of total fuel supply from sustainable sources by 2025 and then expects a steady increase.

In Europe, eliminating dozens of national airspaces borders could reduce fuel consumption by around 6%, but lobbying for a Single European Sky has been bogged down for years.

Airlines say small steps like single-engine taxiing and the use of lighter materials are cutting around 1-2% of emissions each year.

In the absence of a quick and substantial reduction its carbon footprint, the industry has committed to a carbon-offset programme.

The global Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA) allows airlines to purchase pollution credits from environmental projects.

It's unclear what will count as an "offset" and critics say such schemes hide how much effort is being made by industry and how much is being imported and at what price.

"The risk is that the price airlines are effectively paying for carbon will not be politically acceptable in 5 or 10 years," a senior aviation executive said, asking not to be named.

European Union Transport Commissioner Violeta Bulc told Reuters she favours reviewing available green technology every five years "and then seeing if we can reach even further."

For now, trains are benefiting from the anti-flight movement, although airline bosses in Seoul said that option barely exists in their busiest new markets such as Indonesia's archipelago.

In Stockholm, Susanna Elfors says membership on her Facebook group Tagsemester, or "Train Holiday," has spiked to some 90,000 members from around 3,000 around the end of 2017.

"Before, it was rather taboo" to discuss train travel due to climate concerns, Elfors said. "Now it's possible to talk about this on a lunch break...and everybody understands."

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## **Sasol's SA plants threatened by emission standards**



Sasol said some of its South African plants are under threat from sulfur dioxide emission standards that it will need to comply with by 2025.

The company, South Africa's biggest by revenue, operates plants that convert coal into motor fuel and chemicals in Secunda, east of Johannesburg, and Sasolburg to the south. Flue-gas desulfurisation equipment needed to cut emissions of the gas, which causes acid rain and a range of health complications, is too costly and technically difficult to install, Sasol said.

Globally, as well as in South Africa, the company produces a range of chemicals.

Air pollution in the area around coal-fired plants operated by Sasol and Eskom east and south of Johannesburg rivals levels in some of the most polluted cities on earth. The government has proposed doubling the new limit, but is coming under increased pressure to act against the two companies as it's being sued by environmental activists over the breach of current emission limits.

Sasol will have to comply with new sulfur dioxide emission limits for coal boilers of 500 milligrams of the pollutant per normal cubic meter. Its 2018 emission reports show that some equipment at both Secunda and Sasolburg regularly exceeds 1 000 milligrams.

“The new plant standard for sulfur dioxide will pose a compliance risk challenge for Sasol post 2025 from both a technical and financial feasibility point of view,” the company said in an emailed response to questions. “All commercially available technologies for the abatement of sulfur dioxide to meet new plant standards have been evaluated and we continue to scan for new technologies.” A failure to comply could lead to fines and the closing of plants.

While Sasol has already won a postponement, Eskom is yet to hear whether its applications to have its compliance with the sulfur dioxide emission standards delayed from 2020 until 2025 are successful. It has argued that it would only be economic and feasible to fit the pollution abatement technology on its two newest plants.

Eskom, which operates about 15 coal-fired power stations, has said that flue-gas desulfurisation equipment can cost between R20bn and R40bn per plant. Environmental activists including Greenpeace put the cost significantly lower.

“Sasol is still saying they can’t afford flue-gas desulfurisation,” said Robyn Hugo, program head for pollution and climate change at the Cape Town-based Centre for Environmental Rights. “Sasol itself has confirmed that there are no other means to meet these minimum emission standards.”

In addition to being technically difficult and costly, flue-gas desulfurisation equipment would require that additional water and limestone are brought in from the Northern Cape province. Existing limestone mines in that province are 450 kilometers (280 miles) to 800 kilometers away from Sasol’s

plants.

“Flue-gas desulfurisation technology is proven,” Sasol said. Still, “it would be significantly challenging to retrofit” the equipment at the existing plants, it said.

In a separate application for a delay in meeting emission limits for a range of other pollutants, Sasol has asked for permission to significantly exceed caps for nitrogen dioxide, particulate matter and carbon monoxide until 2025. By that time, it says in the application, new equipment should enable it to comply.

On incinerators at its Secunda plant, it wants limits of as much as 90 times the new cap to be applied for carbon monoxide and particulate matter.

Sasol shares have declined by 27% this year as the company battles cost overruns at its Lake Charles chemicals project in Louisiana.

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## **Oil Giant Shell's Pivot to Electricity Could Bring Investors Less Sizzle**



By  
Giulia Petroni  
July 13, 2019 7:00 am ET

Oil giant Royal Dutch Shell RDS.B -0.93% PLC aims to become the world's largest electricity company without necessarily generating very much power. The Anglo-Dutch company last month detailed its plans to transform into a cleaner business centered on selling electricity. Hoping to capture the most profitable part of the business, Shell's power strategy will be light on assets and focus on trading electricity generated by others.

"Trading will sit at the heart of the integrated approach as a very important source of value," Shell Chief Executive Ben van Beurden said at the company's management day last month. "Of course we will be involved in generating electricity [...] but we have a preference for being asset-light and balance our supply by providing electricity from other producers." Oil and gas will remain Shell's core business, the company says, but it is aiming to be the world's largest electric power company by the early 2030s.

Income attributable to Royal Dutch ShellshareholdersSource:



the company

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The shift presents challenges. Sizable companies already exist in the power industry, and generating power has historically produced smaller profits than oil-and-gas production, because utilities often carry more debt and are heavily regulated. "The oil companies have always been used to high rates of returns with the production of crude oil," said Paul Stevens, senior research fellow at Chatham House, a London-based think tank. "Those rates are just not available in power generation." Shell says it hopes to achieve equity returns of between 8% and 12% from its power business, lower than the 12% to 15% target for its traditional oil-and-gas business. The company currently is the second-biggest power trader in the U.S., with a trading desk that predominantly buys and sells electricity that other companies generate. Shell, however, doesn't disclose its trading profits or profit margin on its power-trading business. "Many utilities are hopeless at trading and marketing their power, so it makes sense to let them operate the power plants and have Shell market their power more efficiently," said Craig Pirrong, a professor of finance at the University of Houston. Shell's pivot is part of a broad movement among European oil giants to show they can help meet global goals to reduce fossil-fuel emissions while continuing to churn out profits. It also is an acknowledgment that demand for oil, its chief moneymaker, is expected to peak sometime in the early 2030s, according to a host of studies. The company's recent interest in Dutch energy provider Eneco could serve as an asset-light model for where Shell's power business might be heading. Earlier this year, Shell announced a joint bid with Dutch pension-fund manager PGGM for Eneco, a firm that sold around three times more power than it produced last year. The size of the bid wasn't disclosed but analysts have estimated the company to be worth about \$3.4 billion. As electricity rapidly makes its way into domestic heating, transportation and industrial processes, more than a quarter of global energy demand by 2030 will be for electric power,

according to Shell forecasts. That compares with 18% today and Shell's forecast of as much as 50% by 2060. Shell could play a leading role in new businesses such as electric charging points in fuel stations, said Nick Stansbury, head of commodity research at Legal & General Investment Management, a shareholder in Shell. "What I am not yet convinced by is whether—in order to be good at power-market trading, be good at making money—they necessarily need to own and have on the balance sheet the renewable assets," Mr. Stansbury said.



A London taxi plugged into a charging station at a Shell gasoline station in London in 2017, not long after Shell agreed to buy electric-vehicle charging firm NewMotion. PHOTO: TIM IRELAND/ASSOCIATED PRESS

Many of the oil industry's biggest companies are investing in clean energy projects. France's Total SA owns a majority share in U.S. solar-system maker SunPower and acquired French battery manufacturer Saft Groupe. In the U.K., BP PLC acquired electric-vehicle charging company Chargemaster last year for about \$170 million and invested over \$20 million in fast-charging battery company StoreDot. Norway's state-backed oil

company Equinor and Italy's ENI also have committed to large investments. Overall, European major oil companies are allocating a fraction of their budgets to low-carbon investments, which accounted for a combined 7% of capital expenditures last year, according to investment research firm CDP. Shell's acquisitions in power include German battery company Sonnen, retail energy providers First Utility and MP2 Energy, electric-vehicle charging companies NewMotion and Greenlots, and U.K. energy technology company Limejump Ltd. Shell also has outlined an ambitious plan to share profits with investors, with a plan to pay at least \$125 billion in dividends and share buybacks between 2021 and 2025. Mr. van Beurden has told The Wall Street Journal that the payouts will come from returns on investments the company already has made.

In the long term, those generous dividends could be at risk if the world's switch to cleaner forms of energy changes pace. Oil giants' ability to make high profits remains dependent on their core industries, and failing to embrace the change means they'll eventually be forced out of the business, according to Chatham House's Mr. Stevens.

"The energy establishment is grossly underestimating the speed and depth of the energy transition," he said. "I think it's going to happen a lot faster and be a lot deeper."  
<https://www.wsj.com/articles/oil-giant-shells-pivot-to-electricity-could-bring-investors-less-sizzle-11563015600?redirect=amp#click=https://t.co/wqT12UoCEc>

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## **Wind farms threaten to speed up North Sea decommissioning**



## **Oil and gas operators planning to prolong fields' lifespan may find themselves increasingly in conflict with wind farm developers**

The projected timeline for oil and gas decommissioning in the North Sea could be forced forward by spatial constraints created by offshore wind farm construction, according to the developers of a planned wind hub in the region.

A consortium of Dutch, German and Danish companies wrote in a concept paper on 9 July that the North Sea Wind Power Hub (NSWPH) they are developing would have an estimated capacity of 180GW by 2045, providing clean power to “hundreds of millions of Europeans” in those countries and the UK. “To meet the ambitious targets as set in the Paris Agreement, a large-scale roll-out of offshore wind is required. Increased spatial use by offshore wind energy and transmission infrastructure is then expected accordingly.” Because the turbine foundations deemed the most cost effective need a water depth of less than 55 metres—and as the targeted area is already used extensively for shipping, military exercises and fisheries—there is not currently enough available space for the required number of offshore wind farms (OWFs). “If we take an exclusionary approach, and only install farms in areas that are not

currently being used, there simply is not enough room for a cost effective, large-scale build out of offshore wind power in the North Sea” says Peter Larsen, a development consultant at Danish grid firm Energinet. The firm is developing the project with the Dutch power grid operator Tennet, its gas equivalent Gasunie and the Port of Rotterdam.

## **Competing timeframes**

The NSWPH’s first phase would be connected to shore as early as the 2030s. But the British authorities expect decommissioning work to continue in the area until 2060. Larsen says the eventual decision on whether projects such as the NSWPH should take precedence over the oil and gas sector in the North Sea is one that must be taken by governments. “Which will be the most cost-effective source of power from a social-economic perspective, as part of the green energy transition?” he asks. It is fair to say that it is a leading question. Currently only 3pc of the area the NSWPH would need is available, or only 14,000 km<sup>2</sup>, according to the NSWPH researchers’ February feasibility study. The largest spatial risk created by the oil and gas sectors is not platforms themselves, but the helicopter landing safe zone of 2.5 nautical miles around these. In some cases, it may be possible to site an OWF’s turbines to accommodate these zones—but not all. “After drawing OWFs in the GIS mapping tool, it was discovered that there are attractive farm locations that have so much overlap between helicopter zones, that one can actually not adapt the wind farm, so the oil and gas function needs to adapt,” the study says. The authors also say confidentiality on which specific platforms will be gone by the year 2030 makes it harder to make spatial plans. While that information is commercially sensitive, oil producer lobby group OGUK found last November in a report on decommissioning that higher oil prices and a “relentless focus” on efficiency were pushing field retirements further into the future. Its report forecasts that decommissioning activity will remain relatively

stable over the next decade.

## **Peaceful co-existence**

OGUK's view is that there is no need for conflict between the wind power and oil and gas in the North Sea—and that sharing the spatial resources could be beneficial. “Strong cooperation between different sectors is crucial as the UK invests in all forms of energy production to meet its future energy needs”, OGUK says. “The overlap phase when decommissioning takes place alongside the installation of new offshore wind structures could provide the opportunity for the different sectors to align interests and collaborate on things like logistics costs and stakeholder engagement.” For its part, the NSWPH developers also accept that “co-utilisation” will be necessary in the future, adding that “the extent to which co-utilization will be needed highly depends on future developments such as the decommissioning of oil and gas platforms”.

[https://www.petroleum-economist.com/articles/politics-economic/europe-eurasia/2019/wind-farms-threaten-to-speed-up-north-sea-](https://www.petroleum-economist.com/articles/politics-economic/europe-eurasia/2019/wind-farms-threaten-to-speed-up-north-sea-decommissioning?hootPostID=271f29a013ef2922e07192d9cb92b6b3)

[decommissioning?hootPostID=271f29a013ef2922e07192d9cb92b6b3](https://www.petroleum-economist.com/articles/politics-economic/europe-eurasia/2019/wind-farms-threaten-to-speed-up-north-sea-decommissioning?hootPostID=271f29a013ef2922e07192d9cb92b6b3)

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## **Emissions rules and electric shift to spur car engines M&A**



Mergers and acquisitions have been stuck in a rut since Volkswagen (VOWG\_p.DE) was caught cheating pollution tests in 2015, triggering a global tightening of emissions regulations that depressed the value of petrol and diesel technologies. But the market is beginning to separate companies capable of meeting new emissions standards from those struggling to do so, which could close the gap in price expectations between buyers and sellers over the next 12-24 months, industry experts say. The auto industry has all but stopped developing next-generation combustion engines as limited resources are directed towards building electric and self-driving cars. However, electric vehicles are still a niche product, accounting for only 1.26 million – or 1.5 percent – of the 86 million cars sold worldwide last year, and analysts forecast it will be the middle of the next decade before a tipping point comes when electric cars overtake combustion-engined variants. That means there will still be demand for emissions-compliant combustion engines and so manufacturers and suppliers able to offer that are likely to see valuations

recover, said Reinhard Kuehn, co-head of European Automotive at Deutsche Bank. "At the same time, suppliers that struggle with this will remain a hard sell," Kuehn said. Meanwhile, as production capacity of petrol and diesel engines is cut back, the impetus for mergers among suppliers should increase, bankers believe. Germany's Volkswagen, one of the largest manufacturers of petrol and diesel engines, has said it will develop its final generation of combustion engines by 2026, while U.S. rival Ford (F.N) last month said it would close two engine factories in Europe. "The profit pool of companies with combustion engine-related technology – once the envy of the industry – is shrinking with the rise of electric vehicles and the digitization of the industry," Goldman Sachs managing director Axel Hoefler said. "You would expect someone to come in and consolidate to benefit from economies of scale." Volkswagen is now warning its suppliers to prepare industry-wide solutions for winding down combustion-engine manufacturing as it ramps up mass production of electric vehicles. The company is retooling 16 factories to build electric vehicles and plans to start producing 33 different electric cars under the Skoda, Audi, VW and Seat brands by mid-2023, transforming the industry's supply chain. "It makes no sense to have factories running at only 40% capacity," Stefan Sommer, Volkswagen's procurement head, told Reuters. "The auto industry is obliged to develop structures to consolidate combustion engine assets, to decide where to bundle certain activities." "If we end up with uncontrolled insolvencies, it will be a problem for the industry," he said.

## **MISMATCH**

There are more than 120 plants making combustion engine components in Europe, according to consulting firm AlixPartners. German auto industry association VDA says 436,000 jobs are tied to building petrol and diesel engines in Germany alone. Demand for compliant combustion engine assets has already triggered consolidation among carmakers themselves



– PSA Group's (PEUP.PA) takeover of General Motors' (GM.N) Opel business in 2017 was driven by that issue. "With emissions regulation getting more stringent, particularly in Europe, some manufacturers are getting left behind in terms of their ability to develop compliant engines," Franciscus van Meel, BMW's (BMWG.DE) head of vehicle development, told Reuters. Until recently, deals have still proved difficult to do because of lingering disagreements over valuations. U.S. group Dana (DAN.N) late in 2018 launched the sale of its European head gasket business, a key component for combustion engines, people close to the matter said. With the help of Bank of America it invited suitors to bid, but pulled the auction several weeks later due to muted interest. The sale of Germany's closely-held Ifa Group, a maker of shafts mainly used in combustion engine-powered cars, was announced a year ago, but never got over the finishing line. Among the few suitors was China's Wanxiang, but differences on pricing proved insurmountable, people close to the talks said. "The main problem is that buyers' and sellers' price expectations don't match," KPMG partner Juergen Schlangenotto said. "A seller typically says: I have a robust order book and good margins so I want a valuation of 6 times EBITDA (annual core earnings), while a buyer says there's no long-term growth so I am paying 4 times." A fresh test of interest in combustion engine assets will be the sale of engine parts and gear box parts maker Tekfor. Private equity owner KKR is in talks with a Chinese buyer, according to people close to the matter. James Kamsickas, CEO of U.S. drivetrain supplier Dana, believes internal combustion engine (ICE) demand could persist for many years. "People are overbaking a little bit on how much the internal combustion engine is just going to go away," he told Reuters. "If anything, I'm a very strong advocate that it's going to be a world of hybridization for the next 15 years. Last time I checked, that still requires an ICE."

Editing by Georgina Prodhan and Mark Potter

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# Trade tensions put energy transition at risk, says BP chairman



LONDON (Reuters) – Trade tensions risk throwing the global economy’s transition to greener energy into disarray and could hurt energy companies’ preparations toward it, BP Chairman Helge Lund said as leaders of the world’s largest economies gather for talks in Japan.

Lund, in his first interview since taking office in January, said BP would rather see a rapid, orderly phasing out of fossil fuels than a delayed and disorganized transition.

The former chief executive of Norwegian oil group Equinor said BP as well as rivals such as Royal Dutch Shell (RDSa.L) and

ExxonMobil (XOM.N) would have a vital role to play to ensure a successful transition to low carbon economies.

“It is better for us to see a path that goes rapidly,” Lund said. “It will be very difficult for the oil and gas companies but that is a better and a preferred solution than an uncontrolled sudden change maybe 10, 15 years into the future.”

London-based BP, like some of its peers, has taken steps toward meeting the 2015 Paris Climate Agreement to limit global warming, including setting targets to reduce carbon emissions from its operations, link them to managers’ pay and ensure that investments are in line with the accords.

But many investors say BP will have to do more, including tackling emissions from the fuels and products it sells to millions of customers daily, known as Scope 3 emissions, to prevent a catastrophic rise in global temperatures.

Lund said however that such Scope 3 targets would tie BP’s hands to make future investments, whether in renewable energy or oil and gas. He nevertheless said the company’s thinking around Scope 3 was likely “to evolve over time.”

BP invested around \$500 million in renewable power, electric vehicle charging points and other low-carbon technologies last year, a fraction of its annual spending of \$15 billion.

And the pressure on companies and governments to do more to curb greenhouse gases is rising as carbon emission levels show no sign of decreasing.

Investors managing more than \$34 trillion in assets, nearly half the world’s invested capital, this week demanded urgent action from governments on climate change, piling pressure on leaders of the world’s 20 biggest economies meeting this week.

France has said it will not accept a final G20 communique that

does not mention the Paris climate change agreement.

“The long-term framework around the energy transition is important. Over time it is much easier for big companies like BP if we have a stable global framework for trade and investments,” Lund told Reuters at BP’s London headquarters.

Lund said an unprecedented level of cooperation was needed between companies and governments to bring greenhouse gas emissions to zero by the end of the century.

He urged governments to introduce a price on carbon emissions to allow phasing out fossil fuels, even though only a handful of such schemes have been introduced around the world.

## **SOUND INVESTMENT**

BP has faced a wave of protests by climate activists, including a blockade on its London office and protests at events the company sponsors.

Big investors, including Norway’s sovereign wealth fund, are reviewing shareholdings in some oil and gas drillers, though not in BP and its largest rivals.

Lund, who took part in discussions on a climate resolution with a group of investors earlier this year, believes most investors understand that modern societies are almost built on hydrocarbons.

BP forecasts that even with a rapid increase in wind, solar and other forms of renewable energy, fossil fuels will account for the majority of energy supply for decades to come.

Lund also warned that attempts to curb fossil fuels too fast could harm societies.

“It takes time to change energy systems ... If you try to build down the oil and gas industry quicker than you are able to build up a carbon neutral system you will pull societies

back.”

Lund said large oil companies would be vital for the transition due to their large balance sheets, technical expertise and innovation skills.

“To be a strong contributor in the long term we have to stay financially strong, we have to be a good investment.”

Lund also said: “There is another dimension that we need to think about and that is if you believe that BP and other integrated oil and gas companies understand energy markets, they have significant balance sheets, they have technical capabilities, they have innovation capabilities, they can take risks – so in my mind business and these companies play an incredibly important role in the energy transition.”

## **SUCCESSION**

Lund, 56, faces the task of leading BP through the energy transition and also overseeing the succession to Chief Executive Bob Dudley, who took the helm in 2010 following the crisis over the Deepwater Horizon rig explosion in the Gulf of Mexico.

Dudley also steered BP through the oil industry’s worst downturn in decades so that the company is now producing strong profits which reached a five-year high last year of \$12.7 billion.

“Bob is a very good leader, I am not sure where BP would have been without him,” Helge said.

BP’s board would ensure that when Dudley, who turns 65 next year, steps down, there will be “at least a number of candidates who can compete for the job,” he added.

Lund, a former consultant and political adviser in the Norwegian parliament rejected suggestions he could replace

Dudley to become the next CEO.

“I’ve been CEO for three companies. I thought about this when I left BG whether I should try to get one more (CEO) job or try to get a different life and I decided on the latter and I think it is rewarding,” he said.