

RENEWABLE ENERGY TRANSITION NEEDS INVESTMENT NOT DISINVESTMENT*

The proposal from Norway's sovereign wealth fund to sell off its investments in companies that explore for oil and natural gas has been welcomed by some of the environmental lobby groups campaigning for disinvestment from the hydrocarbon-based economy. According to the official statement from the Norwegian authorities this month, the move is designed to avoid potentially risky over-investment in commodities that are reasonably likely over time to see a fall in value.

The fund already receives income from the country's oil and gas production — some 3,371tn krone (£297bn) to date — and with the market having turned in the past few years from scarcity to plenty the government's view is that it should not be overweight in the sector.

The move is simply one of prudent portfolio management. Indeed, it would have been even more prudent if it had been extended to the integrated oil and gas majors such as Royal Dutch Shell and France's Total. If the decision is ratified by the Norwegian parliament, the fund will sell only some \$7.5bn of its \$37bn holdings in the sector.

The decision is very specific to this fund because of its source of income. It is irrelevant for most investment funds and, as the official statement makes clear, in no way a judgment against the oil and gas sector. The energy business is changing. Renewables are growing and will take an ever-larger part of power generation. But oil and gas will still be needed in substantial volumes.

Few long-term forecasts predict that either oil or gas will see peak demand before the mid-2030s and almost all see a long plateau even after peak levels of consumption are reached.

The challenge to energy companies is that supplies of oil and gas are plentiful so prices, apart from in times of politically driven volatility, are likely to be relatively low. The signal from Norway's action is that the days when investors could assume prices would inexorably rise have gone. These are now volume businesses and the winners will be those who can find and develop resources most cheaply.

The logic behind the fund's decision should disappoint environmentalists because it reflects that opinion of the market. The transition away from oil and gas will be gradual and has barely begun. If the energy transition is to happen, it needs companies dedicated to the development of renewables and able to take technical advances in solar or wind to the global market. Such companies should also be able to support strong research programmes to speed the pace of advance in energy storage and other supportive technologies such as grid technology.