Tomorrow's Affairs
Analysis of today
Assessment of tomorrow

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Record profits of oil giants discourage the fight against global warming

The fight against climate change will not particularly benefit from the gigantic profits that the world's largest oil companies have made in 2022.

Estimates indicate that high profits will continue in this and the next few years, which is certainly good news for the largest oil producers, but not for meeting zero-carbon emission goals.

The five largest Western oil companies made a total profit of about 200 billion dollars, which is the highest in history.

Given that the increase in energy prices due to the Russian invasion of Ukraine largely contributes to such high profits, there was a certain moralistic narrative during the year that oil earnings actually constitute "war profiteering".

US President Joe Biden evaluated oil profits much more rationally, although angrily, in his recent State of the Union Address to Congress, saying that the profits of the oil giants are "outrageous".

“Big Oil just reported record profits. Last year, they made $200 billion in the midst of a global energy crisis. It’s outrageous”, said Biden.

Clearly, this has also been his reaction to last year's huge increase in fuel prices, when at one point the average price was $5 a gallon, for which his administration had no solution.

Biden, in a populist manner, objected to the oil companies and the fact that they use a large part of the profits to buy back their own stocks, rewarding their CEOs and shareholders.

That is why he advocates quadrupling the tax on corporate stock buybacks "to encourage long term investments instead”. But the real question remains: what are the oil giants actually investing in?

Profits go into new fossil fuel production

According to most of their strategies for the next ten years, investments would mainly go into new projects related to fossil fuels. This should concern everyone working on reducing emissions and stopping global warming, particularly governments.

According to S&P Global, total investment in fossil fuel projects last year was $450 billion, a full $100 billion more than in 2020.

The market clearly does not stimulate decarbonisation and the shift of the largest oil and gas producers to environmentally sustainable projects. On the contrary, it has been encouraging them to invest even more in traditional fuels, and there is no better proof of that than last year's record profits.

The Russian invasion of Ukraine, and particularly the withdrawal of some large oil companies from Russia (for example BP) have made investment plans more focused on the global south than before.

As for the US companies, these are primarily sites and facilities in Latin America, while Europeans have been increasingly investing in Africa.

The biggest current investment of Exxon Mobil, the leader in last year's profit with about 56 billion USD, is in Guyana in South America. Exxon has been present there since 2015, when it discovered a large deposit, and has predicted that by 2030 it would become its largest operation and one of the 20 largest in the world. On the other hand, Italian Eni invests in oil projects in Libya, Shell and Equinor in Tanzania, and French Total in Mozambique and South Africa.

Green energy is unprofitable

Europeans and Americans, therefore, have the same strategy of expanding production, through new investments in deposits, exploitation and processing, and they have been reluctant to invest profits in low-carbon and ecologically sustainable projects. They are simply not profitable enough for them.

The Economist, however, noticed a difference in approach, where European companies have a little more consideration for green technologies and fuels, and states that in 2022, Europeans invested in about twenty low-carbon projects. “Oil companies will complain that they didn’t get any reward in the market for being greener than Exxon”, said Rachel Kyte, dean of Tufts University’s Fletcher School and a former UN climate adviser for the FT.

“I don’t think that’s enough of an excuse, but I do think it asks a fundamental question of the strategies around the energy transition: how do we send signals in the market that show that we value this kind of oil and gas company better than another one?”

The global green goals are losing the race

The world's largest oil companies have paid lip service to accepting the goals of the Paris Climate Accords, which aim to lower global temperatures through the reduction of fossil fuel consumption.

However, their devotion does not stand a chance against the profits calculated at the end of the year.

“The reality is, fossil fuel is what runs the world today”, Chevron chief executive Mike Wirth, told the FT in a recent interview. “It’s going to run the world tomorrow and five years from now, 10 years from now, 20 years from now”.

Therefore, companies should not be expected to give up profit growth, and very reliable expectations that their investments in traditional fuels will pay off in the coming years.

There is no use in waiting for consumers to turn their backs on their products, as ecologically unjustified, because they simply have no alternative.

The only space left for governments and their environmental policies is to gradually discourage the consumption of fossil fuels through regulation, and at the same time encourage the use of renewable energy resources.

Those policies are expensive and at the same time risky for any government, because they inevitably confront the interests of large global companies. The global green transition will thus have to take much longer than was enshrined in all previous agreements on saving the planet from global warming.