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The 2030 decarbonization challenge

The path to the future of energy

Power, utilities and renewables

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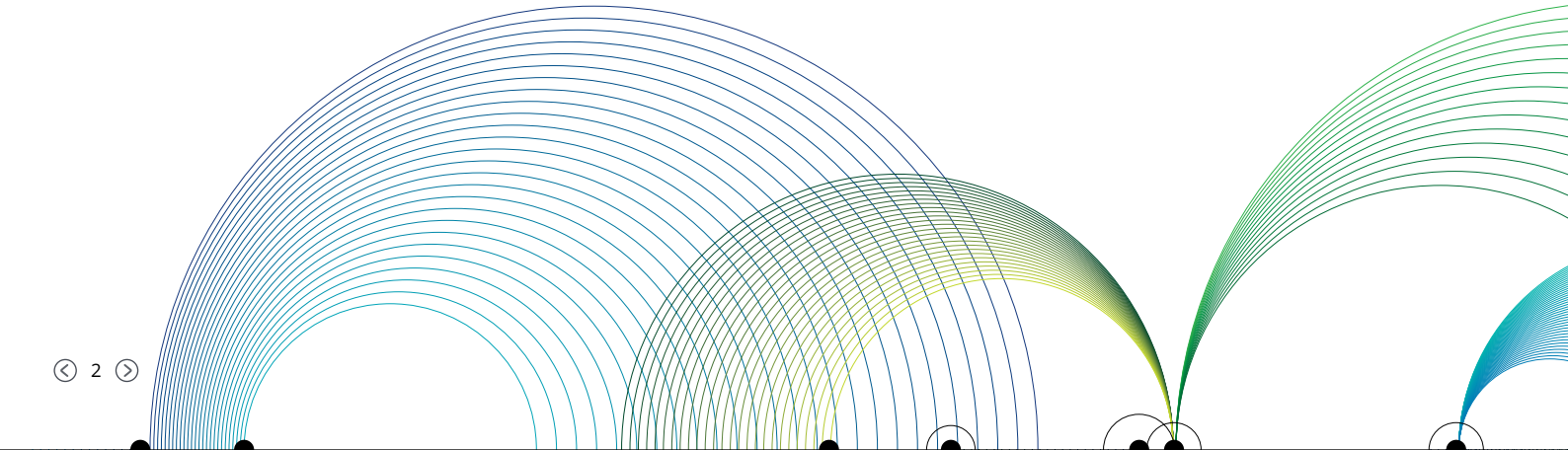
Forward

The global energy mix is shifting from fossil fuels to renewables. There are abundant examples of both public and private organizations working hard to decarbonize the economy. As this energy transformation or "Green Deal" gains momentum, new ecosystems are forming and new technologies are emerging. These developments are helping to grow renewables, develop new energy carriers, improve energy efficiency, reduce emissions and create new markets for carbon and other by-products as part of an increasingly circular economy. At the same time many of these commonly pursued steps to decarbonization, such as increased electrification, wide-scale use of renewable energy and intensifying energy efficiency measures pose unique challenges.

Many participants in the Energy & Resources (E&R) industry have publicly declared their intention to become carbon neutral by 2050. While their long-term vision is clear, the more perplexing challenge for E&R companies lies in the immediate future. Many companies are struggling to understand the material impacts that their stated goals are going to have on their valuations, operations, employees and markets over the next few years.

This report explores how companies in certain sectors of the E&R industry—chemicals, oil and gas, mining and metals, and power, utilities and renewables—can accelerate decarbonization over the next decade and achieve meaningful interim targets by 2030.



Introduction

The transition toward a clean energy future is underway and it will change almost every aspect of E&R companies' assets and operations. Taking a global view across sectors, the top drivers of decarbonization include:

- Customer, employee and community demands.
- Investor pressure.
- Policy and government targets.
- Technology and operational cost reduction—a more efficient frontier.

A closer examination of each driver suggests that the energy transition is anchored in long-term trends, which is likely to make it capable of withstanding the current economic downturn.

Customer, employee and community demands

A groundswell of support for climate action has arisen across the globe. 2019 saw the biggest climate protests ever as millions took to the streets to demand immediate action to tackle climate change and reduce pollution.[1] In the estimated 185 countries where demonstrations took place, protesters put pressure on governments and businesses to address urgent sustainability issues, such as rising sea levels in the Solomon Islands, toxic waste in South Africa, air pollution and plastic waste in India, and expansion of coal extraction in Australia.[2] The economic shutdowns in 2020 in response to the coronavirus pandemic have further highlighted the environmental damage and pollution that have become the norm for much of the world's population. In China and India, for example, the skies cleared over industrial centers for the first time in years.[3,4]

The change in consumer attitudes, activism and the positive impact of reduced mobility and industry on the environment is apparently getting through to companies and industries. More and more are acknowledging that they need to embrace a low-carbon future not only for the sake of the planet, but to improve customer loyalty and assure their long-term viability. A growing body of evidence reflects this shift in sentiment. For instance, nearly three-quarters of United States business respondents in the 2020 Deloitte Resources Study said their customers are demanding that they procure a certain percentage of electricity from renewable resources, and a rising portion (77%) actively publicize sourcing of renewables.[5] From sustainable building materials to green minerals, demand is also increasing for other carbon-neutral products beyond energy. Meanwhile, a shift in generational values has occurred. Younger employees increasingly want to work for companies that benefit society in addition to producing a profit.[6] The recent rise in employee activism suggests that employees are increasingly monitoring company responses to issues, ranging from gun control to climate change to the coronavirus pandemic.

Policy and government targets

Where the public leads, policymakers eventually follow. Climate strikes and marches around the globe have illustrated that both employees and customers mean business when it comes to emission reductions. With large swathes of the public demanding action on climate change, many governments now have a mandate to set carbon-reduction targets and enact green legislation.

The European Union (EU), for instance, aims to be climate-neutral by 2050. Pursuing an economy with net-zero greenhouse gas (GHG) emissions is at the heart of the European Green Deal and aligned with the EU's commitment to global climate action under the Paris Agreement.[7]

China has also announced ambitious carbon-reduction goals, having set 2030 as a target for peak emissions as part of the Paris Agreement.[8] China's near-term goal is to reduce emissions intensity: energy use and carbon emissions for every unit of gross domestic product.[9] It is currently on track to reach its goals after reducing emissions per GDP by 5.1% and 4% in 2017 and 2018, respectively.[10] More recently, China's decarbonization progress received an unexpected boost: an analysis by Carbon Brief, a UK-based website specializing in climate change, estimated that the coronavirus shutdown from December 2019 through February 2020 had temporarily cut China's carbon emissions by 25%.[11]

Beyond setting reduction targets, some governments are using carbon pricing schemes to accelerate progress toward their goals. More than 40 governments worldwide have now adopted a price on carbon, either through direct taxes on fossil fuels or through cap-and-trade programs.[12] These programs have so far produced mixed results. Some are perceived to be wildly successful while others are viewed as ineffective and expensive at a time when energy customers cannot bear the added costs. That may be why some governments are choosing to tax carbon indirectly through subtler methods such as renewable portfolio standards, energy efficiency mandates, emissions regulations, and carbon-offset pricing.

Investor pressure

In response to policy shifts and customer needs, investors too are taking decarbonization seriously. BlackRock, the world's largest fund manager, with about US$7 trillion of assets under management, is an example[13]. In 2020 Larry Fink, BlackRock's chief executive, declared that "climate risk is investment risk," and published two letters, one to clients and one to CEOs, stating that the group would begin to "place sustainability at the center of its investment approach."[14] He also predicted that "in the near future—and sooner than most anticipate—there will be a significant reallocation of capital to address the climate threat."[15]

Key aspects of BlackRock's sustainability strategy include:

- Selling direct investment in companies that derive more than 25% of their revenues from thermal coal.
- Pledging to vote against management teams that do not publish reports in line with the recommendations of the Task Force on Climate-Related Financial Disclosures and the Sustainability Accounting Standards Board.
- Using economic, social and governance (ESG) criteria more rigorously in active investment strategies.
- Offering more sustainable investment funds.[16]

While BlackRock's strategy made headlines due to the fund's size and influence, other investors have also been pressuring companies to take more action on climate change. For instance, Climate Action 100+, which BlackRock has joined, targets high-emission companies and has grown into one of the largest investor-led engagement initiatives, with over 450 investor signatories and representing over US$40 trillion in assets under management across dozens of markets.[17] Although short-term financial returns generally remain at the forefront, investor efforts such as these could have profound long-term implications for global business and finance, particularly for the E&R industry.

Technology cost reduction

Steep reductions in technology costs are helping E&R companies enable their decarbonization strategies.

Energy storage, which is key to large-scale adoption of renewable energy, is a case in point. Average market prices for battery packs have plunged from US$1,100/kilowatt hour (kWh) in 2010 to US$156/kWh in 2019, an 86% fall in real terms, according to a report released by Bloomberg New Energy Finance (BNEF).[18] Battery-pack prices are projected to fall even further to around US$100/kWh by 2023, driving electrification across the global economy, according to BNEF's forecast.[19]

In addition, advancements in digital technology, such as the Internet of Things (IoT), blockchain, digital twins, and AI-enabled energy-management and trading platforms, also promise to boost efficiency and drive costs down across both conventional and renewable energy value chains.

An opportunity to transform

As these drivers intensify and converge, many leading E&R companies are publicly announcing goals related to reducing emissions, utilizing renewable energy, and addressing climate-related risks. In Deloitte's recent energy transitions survey entitled Navigating the energy transition from disruption to growth, 89% of E&R executives reported that they either already had a plan in place or were developing a strategy to reduce reliance on fossil fuels.[20] 30% of those executives already had a fully developed plan in place. While some E&R companies are mainly responding to government mandates, others see the energy transition as an opportunity to transform themselves via long-term scenario planning over the next 10 to 30 years.

The future of energy

Scenario modeling traditionally arrives at a potential future by examining trends and considering the effects of variables that could be encountered along the way. But what if researchers took a fundamentally different approach based on the idea that the future is not determined by trends but by what will shape their trajectory? To find out, the Deloitte Energy, Resources & Industrials industry team identified 19 uncertainties that will likely influence the speed and scope of the macro trends that are underway today. Working backward along their trajectories, the team arrived at four plausible and divergent scenarios for what the future of energy might look like in 2035 from a global perspective. For more information on Deloitte's Future of Energy Scenarios visit our website

Thus far, the transition to a low-carbon economy has largely been led by the power and utilities (including renewables) sector. Emissions from leading power and utilities companies around the globe have fallen dramatically since 2015, according to an analysis commissioned by the World Economic Forum.[22] Point380, a specialist data analytics firm, performed the analysis using company data reported to the CDP, a not-for-profit organization that monitors global emissions.[23] The reductions are likely due to a combination of factors, including:

- Green policies, such as carbon pricing schemes and renewable portfolio standards, which are driving power generators away from coal-fired thermal generation.
- An abundance of low-cost, cleaner-burning natural gas, which is being used as a bridge fuel in transitioning away from coal.
- Supportive incentives to invest in renewables and bring down the price of technology.
- Commitments from large commercial and industrial customers such as those in the RE100 initiative to source 100% of their power from renewable sources[24].

Building on the progress made, some power and utilities companies are raising the bar on their own, without further prompting from regulators. For instance, the Italian multinational energy corporation, Enel, set a carbon-neutral ambition for 2030, well before the 2050 goal of many companies.[25] To attain this goal, the company is pursuing an ambitious global investment plan to expand its renewables generation portfolio.[26]

Mining and metals organizations came under public pressure early to reduce GHG emissions as part of preserving a social license to operate. Consequently, some are already working toward electrifying their operations and are collaborating with industry associations and other groups to develop innovative solutions for decarbonizing energy-intensive processes, such as smelting and calcining. For instance, in July 2019 BHP announcement their intention to invest US$400 million over five years on low emissions technologies and natural climate solutions and support partnerships to address Scope 3 emissions.[27] Since then, they have identified approximately US$350 million of investment opportunities and are now beginning to allocate funding. The initial investments will focus on reducing operational emissions initially through the purchase of renewable energy and on Scope 3 emissions in the steelmaking sector, with a particular focus on emerging technologies that have the potential to be scaled for widespread use[28]. Similarly, Rio Tinto plans to spend US$1 billion over the next five years on climate-related projects.[29] It has also exited coal production, agreed to an asset-by-asset review of its emission reduction targets, and joined the Energy Transitions Commission to accelerate progress on hard-to-abate sectors.[30] Meanwhile, CEMEX has announced an ambitious strategy to reduce its carbon dioxide (CO_2) emissions by 35% by 2030.[31]

Companies in the oil, gas and chemicals sectors, whose core business models are based on producing and processing hydrocarbons, have generally been slower to change. Nonetheless, several companies are now seizing upon the transition to a low-carbon economy as a means to transform not only how they operate, but also what they offer. Shell, Repsol, Equinor, Total, and bp have developed initial investment plans to diversify their businesses and have set long term energy intensity targets to reduce emissions.[32] Their plans include investing in renewable energy sources, such as solar, wind, hydrogen and biofuels, as well as expanding into ancillary low-carbon businesses such as battery packs and grid-balancing technologies.[33]

With cross-sector intentions, the scale of Oil Majors' commitments could be a game-changer for the E&R industry. For instance, within 10 years bp anticipates having increased its annual low-carbon investment 10-fold to

around US$5 billion per year.[34] This investment is expected to encompass a variety of low-carbon technologies, including renewables, bioenergy and early positions in hydrogen and carbon capture, usage and sequestration (CCUS).[35] Likewise, Total has announced its intention to become a leading international player in renewable energies and has allocated significant funds toward achieving this goal.[36] The company currently allocates more than 10% of its capex to low-carbon electricity, and it plans to increase this allocation to 20% by 2030 or sooner.[37]

Similarly, several multinational chemical companies have launched transformational initiatives centered upon sustainability. DuPont, for instance, has committed to: integrating circular economy principles into its business models; designing 100% of its products and processes using sustainability criteria including the principles of green chemistry; and reducing GHG emissions by 30% by 2030, including sourcing 60% of its electricity from renewable energy.[38]

The desire to refashion themselves is not limited to the world's largest companies. For example, Occidental, an integrated energy company with oil, gas, and chemicals operations and low-carbon ventures, recently announced its bold aspiration to become completely carbon-neutral by using CCUS and by developing other economic applications for CO2.[39]

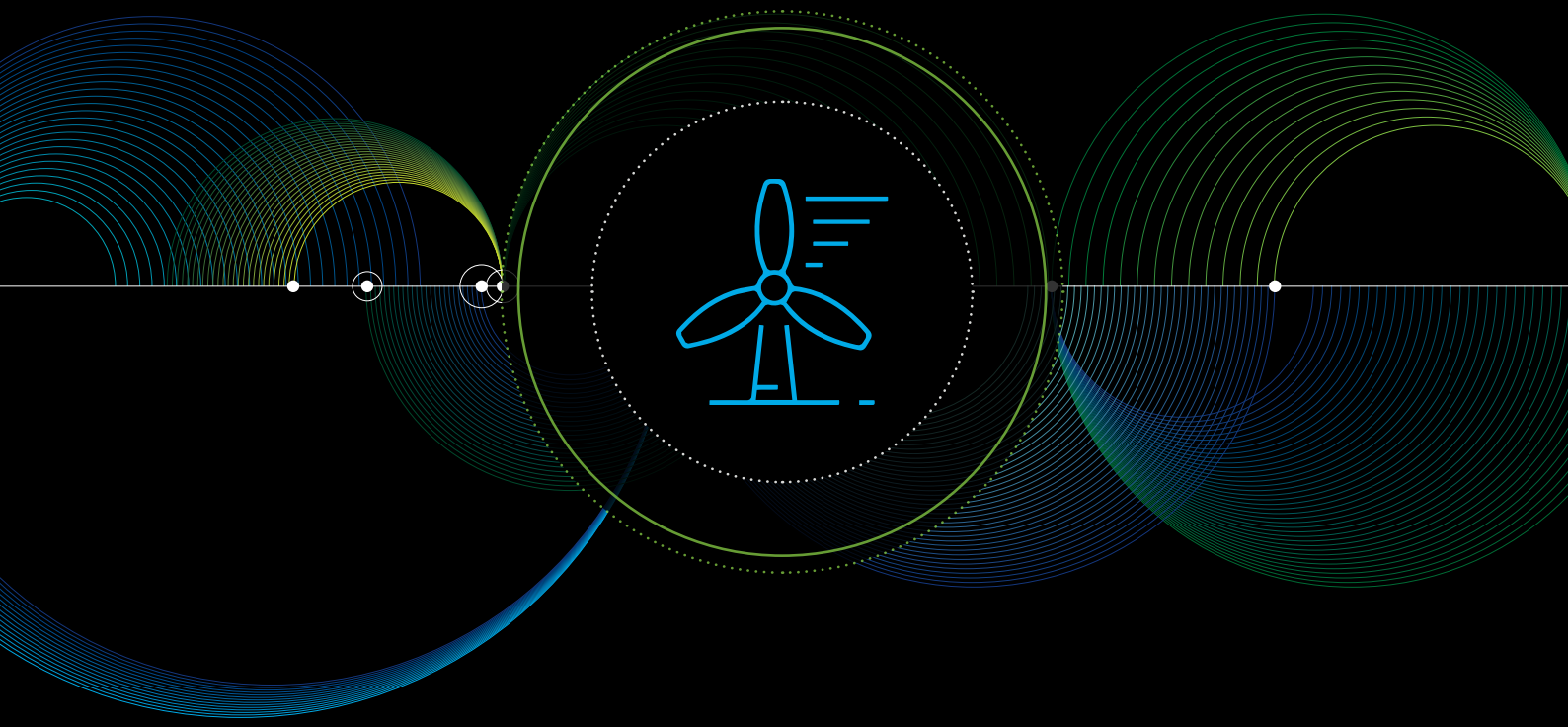
Navigating the future of energy

Although the transition to a low-carbon economy is gaining momentum, there is still much work to be done. In a 2019, Monitor Deloitte Australia conducted a market study of 112 companies around the world, 69% of them in the Energy, Resources & Industrials industry. Data came from publicly available disclosures and sustainability reporting from 2017 to mid-2019. During this period, these 112 companies collectively emitted 4.53 billion tonnes of carbon dioxide, of which 96% was attributable to E&R—oil and gas, chemicals, mining and metals, and power and utilities. Though these figures can only be approximate given variations in reporting standards, they still illustrate the magnitude of the challenge that lies ahead.

Decarbonization involves heavy lifting. For companies pursuing these goals, it requires a transformational shift in the way they operate: how they source, use, consume and think about energy and feedstocks and how they engage with multiple stakeholders. It also requires a significant financial commitment from investors and governments. The energy transition also has sector-wide implications for how E&R companies interact with each other as well as for how the sectors themselves may combine and converge.

To help companies navigate their way to the future of energy, the following sections examine the current state of decarbonization across four E&R sectors: chemicals; oil and gas; mining and metals; and power, utilities, and renewables.

Each analysis examines the current state of decarbonization in the sector; distinct or outsized macro drivers; which emissions are within a company's control; and potential decarbonization pathways and practical considerations that may influence a company's decarbonization strategies and tactics. For the purposes of this paper we will use the emissions taxonomy put forth by the Greenhouse Gas Protocol: Scope 1 emissions are direct emissions from owned or controlled sources; Scope 2 emissions are indirect emissions from the generation of purchased energy; and Scope 3 emissions are all indirect emissions (not included in Scope 2) that occur in the value chain of the reporting company, including both upstream and downstream emissions.[40]



Power, utilities and renewables

Organizations in the power and utilities space are moving faster to decarbonize than many other sectors. This is due partially to policy but principally to economics. Low-cost natural gas has displaced coal, reducing sector emissions significantly, wind and solar are among the cheapest resources available in most areas, and battery storage costs have plummeted. Technological advances have also improved energy efficiency across generation, transmission and distribution, and paved the way for new models of distributed generation such as microgrids, community solar, and peer-to-peer energy trading. The power sector is also benefiting from the movement to electrify transportation and certain industrial processes. Additionally, social pressure from customers is driving the sector to develop a "green" portfolio of services and products. This pressure has given rise to new offerings in the following areas: energy efficiency, distributed generation and storage, smart energy management, energy system flexibility services, green origin of energy certificates, smart cities, net-zero and LEED-certified[41] buildings, electric vehicles, and more. For the power, utilities and renewables sector, promoting decarbonization has become a key attribute of customer engagement.

Distinct or outsized drivers

The power and utilities sector shares the same drivers as the other sectors. However, since electricity production is the single greatest contributor to global greenhouse gas emissions at 31% of total emissions, and many renewables technologies are already mature, the power and utilities sector has generally felt these pressures earlier than other sectors. Consequently, companies have been decarbonizing for more than a decade.

Although coal-fired generation still accounts for a large portion of electricity generation capacity in certain regions, producers around the world are largely working to expand their renewable energy portfolios, repurpose, decommission or increase the efficiency of their thermal power plants, and improve energy efficiency in buildings. Natural gas is expected to continue to play a major role in electricity generation for at least the next decade since it is widely seen as essential to handling peak loads and offsetting the intermittency of renewables. Some power producers are also extending the lives of their nuclear plants, which are valued for their baseload capacity and low-emissions profile. However, public sentiment about nuclear power and its waste disposal issues remains negative.

The power and utilities sector also encompasses natural gas utilities, which are facing their own breed of challenges. Natural gas is still a valuable home-heating source and commercial and industrial energy source and is likely to remain so for some time. However, the long-term future of the sector is in question as the energy transition gains momentum and new technologies come to the fore. For instance, in the United States a nascent movement has begun to encourage or require all-electric new construction. Several cities have recently enacted new zoning codes prohibiting installation of gas lines in major new construction and so-called gut renovations.[42] Meanwhile, in the United Kingdom the possibility of substitution has appeared: as part of a government-commissioned study, a group of leading engineers recently determined that it is technically feasible to replace natural gas with hydrogen in the country's gas grid.[43]

In light of these developments, power and utilities companies—ranging from small, local co-ops to large, investor-owned utilities—generally understand that they must develop renewables as well as products and services that help customers reduce their carbon footprints, or they may not survive.

Which emissions are under a power and utility company's control?

Scope 1 and 2 emissions are under a power and utility company's control and have been under scrutiny for some time. This includes improving the efficiency of customers and helping them become "prosumers" through distributed generation (i.e., installing solar panels) and electrifying all home energy usages (i.e., electric vehicles, thermal hot water heaters, heat pumps, batteries, etc.). On the supplier/provider side, this includes reducing or offsetting the emissions generated by fuel producers, equipment manufacturers, and third-party logistics and service providers.

Practical considerations

With no historical precedent, decarbonization of the power and utilities sector will require a robust ability to manage and derive insights from data. Although disruption and displacement pose significant threats, some see abundant opportunities to create new business models and revenue streams by applying advanced analytics and scenario modeling across the three main segments of the value chain: retail power, grid transmission and distribution, and generation.

In the retail power segment, companies will need to gain a deep understanding of residential, commercial and industrial customers so they can develop attractive offerings and insert them at the right point in the customer lifecycle. As outlined in the Deloitte publication, Widening the Lens: Big-picture thinking on disruptive innovation in the retail power sector, retail power companies should consider broadening innovation programs to survive amid a multitude of new market entrants and new business models from existing competitors.[44] A renewed focus on innovation is essential to developing a broad catalog of products and services. Companies should also consider building ecosystems with third parties to accelerate customer adoption of new products and services and facilitate new channels of communication. Moving ahead, service delivery excellence, including digital channels to manage customer relationships, will likely be a key differentiator. Greater digitalization can also help to reduce operational costs.

In grid transmission and distribution, companies will need to assess how to deploy smart technologies, along with having proactive discussions with regulators about incentives and how they can recoup their investments. As distributed generation expands and more renewables enter the system, companies will increasingly need to develop and be compensated for solutions that balance the grid and facilitate the two-way flow of electricity.

Smart platforms lighten the load on the grid and consumers

As more distributed resources come online, more technological solutions are needed to lighten the load on the electricity grid. eMotorWerks, an Enel X subsidiary, and LO3 Energy, which facilitates local energy marketplaces through advanced digital services, have joined forces to test an AI-powered, grid-balancing solution that aims to put money back into the pockets of EV owners while reducing the environmental impact of charging. The project connects eMotorWerks' JuiceNet EV charging platform to one of LO3's energy marketplaces to allow local renewable energy to be traded between the microgrid and EV owners. LO3's Exergy™ platform underpins the data exchange that enables price signals and peer-to-peer transactions, while the eMotorWorks JuiceNet platform enables local demand from electric vehicles and households to be matched with the local supply of affordable green energy in real time. The idea behind this project and others underway at Enel X is to give consumers choice in how they consume energy, including when and what type of resources they use to charge their EVs as well as when and how EVs can be leveraged as energy resources for local grid-balancing through demand response.

Source: Enel X company website, "A smart platform to enable EV charging with clean, local energy," December 10, 2018, https://www.enelx.com/en/news-and-media/news/2018/12project-efficient-charging-micro-grid-electric-vehicles, accessed August 31,2020.

In addition to deploying distributed resource management (DRM) technologies, the pace of decarbonization largely hinges upon the evolution of energy storage technology. Currently, lithium ion batteries are the default option for grid-scale storage, but they only provide power for a few hours in an efficient and economic way. Fortunately, promising longer-duration storage technologies are in development, including flow batteries, compressed air systems, liquid air systems, flywheels, thermal storage (e.g., molten salt), stacked blocks, and hydrogen.

In generation, companies will need to find cost-effective ways to expand renewable portfolios by choosing appropriate technologies and suitable locations, while determining whether to transform or decommission thermal plants. These plans will vary greatly across countries.

Across all segments of the value chain, companies will be challenged to:

- **Compete with a host of new competitors.** Developing renewable generation has lower barriers to entry than building centralized fossil-fuel-fired plants. Changing regulations and the application of new digital technologies (e.g., the cloud, AI, robotic process automation, etc.) are inviting new entrants into the retail sector. This has opened the door to a number of smaller players as well as to larger technology and telecommunications companies which aim to become the main provider of home services. In addition, oil and gas majors are entering the field to diversify energy portfolios. These competitors have deep pockets and, despite the transition away from fossil fuels, are likely to have profitable businesses for decades to come that can be used to fund investments in other areas.

- **Anticipate and influence the regulatory environment.** Investments in the system and the grid are even more necessary during this energy transition because management of the system will be much more complex. But in many areas of the world, regulatory authorities have yet to align financial incentives with the investments that need to be made. For instance, a generation company may need to build a gas-fired thermal plant to maintain reliability, but it will only operate for about 1,000 hours per year due to increased renewables in the system, as opposed to the 5,000 or more hours necessary for it to be economical. Or, a power grid company may need to make upgrades to handle more connections with distributed generation. There is also the issue of how to compensate energy storage providers for the value they add to the grid. Without the right regulatory frameworks in place to build markets and ensure adequate returns, power and utilities companies will be forced to make some difficult choices about which projects to pursue and how to fund them.

  In their interactions with regulators, companies may wish to consider tying their investments to customer value and satisfaction, resiliency, and better performance in terms of uptime and reliability. Examples include developing back-up microgrids that will turn on during outages or utility-grade solar projects that customers can opt in on. Companies will also need to manage the issue of equity. Some argue that many residential solar programs are inherently unfair to low-income customers: not everyone can afford to install solar panels, while those who can often don't pay their fair share to maintain the grid. Similarly, there are concerns about grid fragmentation. For instance, microgrids may become concentrated in wealthier areas, presenting the risk that whole communities could be left behind.

- **Transition to digital tools and lean organizations.** A big part of keeping costs down involves digitalization and improved workforce management. Cloud-based customer service and billing systems will likely be a part of this transition. So will cloud-based human capital management systems that improve the employee experience, enable more-efficient scheduling of personnel, and facilitate talent management and retention. Some regulators in the United States are starting to respond to these needs by allowing cloud investments to be classified as capital expenses. This change in perspective opens up new avenues for funding digitalization programs and promoting adequate returns on investment.
- **Determine new growth strategies.** Internationalization could be a growth option for some power and utilities companies in developed countries where energy demand is flat. Companies may also get an unexpected boost from coronavirus pandemic stimulus funds. The likely responses to the crisis are not fully known but some governments are expected to incentivize clean energy programs and infrastructure projects as a mechanism to jumpstart flagging economies and get people back to work.

Despite the coronavirus crisis, many power and utilities companies remain focused on their decarbonization pathways. Companies have generally paused their large capitalization programs during the crisis but are expected to resume them in the long term. In the near term, companies will likely concentrate on building resilient organizations, digitizing workforce management, and improving their supply chains.

Cross-sector solutions

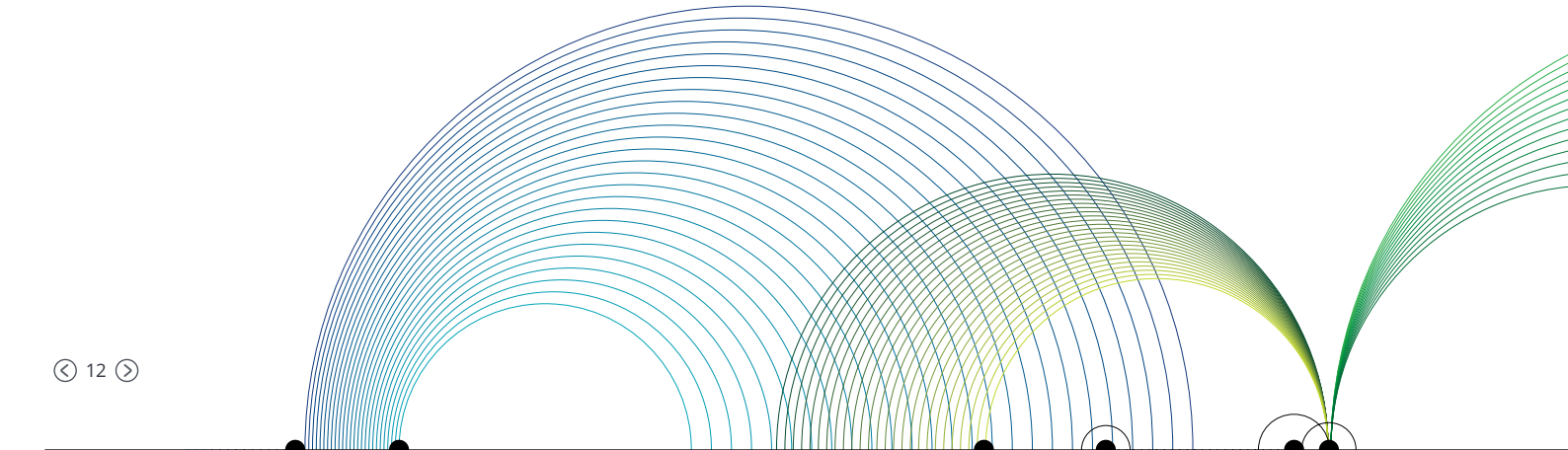
Understanding the financial impact of climate-related risks and opportunities on their businesses is imperative for companies across all sectors. In time, greater scrutiny will be placed on organizations to not just disclose but respond to the transition and physical risks that lie on the path to the future of energy.

Transition risks include depressed asset values, stranded assets and changing market demand. For example, midstream companies that own gas pipelines may someday encounter decreased utilization or disuse, the odds of which increase with time. An unintended consequence of the transition could be that the big companies will exit the space. This has happened with coal mining and coal-fired power plants in the United States and Europe to some extent, raising the question of who ends up owning high-emissions assets as they wind down. It might be a race to the bottom, with the least socially responsible companies the only ones willing to take these assets on, potentially creating new risks. Another question is at what stage do asset valuations start to take into account the eventual phase out of fossil fuels.

Physical risks include direct and indirect impacts of severe weather on infrastructure, worker safety and productivity. The industry has already seen far too many real-life examples. The E&R industry in Australia offers a case in point; stronger typhoons in Northern Australia have repeatedly caused shutdowns because some mine sites and all LNG facilities are close to the coast. There have also been many days of extreme heat, above 40°C (104°F), where workers need more breaks, reducing productivity[45]. Fires, too, have come close to critical infrastructure, triggering shutdowns and pre-emptive power outages.

In this environment, markets are beginning to scrutinize the methodologies companies use to prepare for the energy transition to ensure they are adhering to science-based targets and developing effective strategies for risk mitigation and carbon abatement. Robust, science-based analytical tools and frameworks are likely to become essential. Such tools can help companies to identify decarbonization pathways and prioritize abatement projects by analyzing their costs and linking them directly to science-based targets.

As executives figure out how to manage the decarbonization challenges within their company and sector, they should not forget that vertical integration and cross-sector consolidation may be part of the solution. This could begin with bilateral partnerships but evolve into partnerships or acquisitions throughout the value chain. For instance, a mining company could merge with a cement-maker, or an oil and gas company could acquire a battery manufacturer or enter into a joint venture with an EV automaker. In a world where the traditional lines between sectors are blurring, these types of non-traditional amalgamations may become routine.



Conclusion

Towards the new circular economy

For companies that emit and/or produce hydrocarbons, the pressure to change is building on all sides. But as the problems become more urgent, they are also becoming more feasible to solve. The emergence of a low-carbon, circular economy is now possible and many governments and regulators are starting to show their support. They now stand to gain, rather than lose, political capital by enacting policies that spur climate action and establish a circular economy.

While the economic shock of the coronavirus pandemic may slow progress in the short term, it is also shining a spotlight on the human impacts of pollution and climate change, thus advancing the decarbonization agenda in the long run. What emissions or waste products are attractive to acquire is an interesting question that arises.

New technologies make it possible to use CO2 as a feedstock for chemicals and plastics. Waste-to-hydrogen plants are being built. Renewable electricity is rapidly descending the cost curve. This suggests the E&R industry is on the cusp of a paradigm shift that could transform waste from a problem to a solution.

Instead of pondering how to dispose of CO2 and other waste, many companies may by 2030 view everything they produce, including emissions, by-products and end-products, as a resource that can be traded to create economic value. New partnerships and markets are likely to form. Substances long emitted or discarded as costly nuisances can become products that companies want to buy. And a new, cleaner, more circular economy can emerge.

About Deloitte's Decarbonization Solutions

The Decarbonization Solutions package provided by Deloitte member firms, includes modules relating to abatement portfolio management, decarbonization scenarios, abatement pathways, and impact analysis as well as modules to help consider physical climate risk. The modules leverage scientific information from leading bodies and methodologies including Represented Concentration Pathways from the Intergovernmental Panel on Climate Change, shared socio-economic scenarios from the International Institute for Applied Systems Analysis, and methodologies from the Science-based Targets Initiative, among others. The modules compare forecast emissions reductions from selected abatement projects with short, medium and longer-term aspirations and pathways as well as identify physical climate risks.

Contacts

Global contacts

Rajeev Chopra
Global Industry Leader – Energy, Resources & Industrials
Global Sector Leader – Oil, Gas & Chemicals
Deloitte Touche Tohmatsu Limited
Email: rchopra@deloitte.co.uk

Stanley Porter
Global Sector Leader – Power, Utilities & Renewables
Deloitte Touche Tohmatsu Limited
Email: sporter@deloitte.com

Andrew Swart
Global Sector Leader – Mining & Metals
Deloitte Touche Tohmatsu Limited
Email: aswart@deloitte.ca

Country contacts

Argentina
Ricardo Ruiz
Energy, Resources & Industrials Leader
Deloitte Argentina
Email: riruiz@deloitte.com

Australia
Ian Sanders
Energy, Resources & Industrials Leader
Deloitte Australia
Email: iasanders@deloitte.com.au

Brazil
Carlos Nogueira Nicacio
Energy, Resources & Industrials Leader
Deloitte Brazil
Email: cnicacio@deloitte.com

Canada
Jurgen Beier
Energy, Resources & Industrials Leader
Deloitte Canada
Email: jbeier@deloitte.ca

Chile
Marcel Andres Villegas
Energy, Resources & Industrials Leader
Deloitte Chile
Email: marvillegas@deloitte.com

China
Kevin Guo
Energy, Resources & Industrials Leader
Deloitte China
Email: kguo@deloitte.com.cn

Columbia
Gustavo Ramirez
Energy, Resources & Industrials Leader
Deloitte Columbia
Email: gramirez@deloitte.com

Denmark
Mikkel Boe
Energy, Resources & Industrials Leader
Deloitte Denmark
Email: mikboe@deloitte.dk

France
Veronique Laurent
Energy, Resources & Industrials Leader
Deloitte France
Email: VLaurent@deloitte.fr

Germany
Thomas Doebler
Energy, Resources & Industrials Leader
Deloitte Germany
Email: tdoebler@deloitte.de

India
Debasish Mishra
Energy, Resources & Industrials Leader
Deloitte India
Email: debmishra@deloitte.com

Italy
Angelo Era
Energy, Resources & Industrials Leader
Deloitte Italy
Email: aera@deloitte.it

Japan
Koji Miwa
Energy, Resources & Industrials Leader
Deloitte Japan
Email: kmiwa@tohmatsu.co.jp

Korea
Jong Woo Lee
Energy, Resources & Industrials Leader
Deloitte Korea
Email: jongwlee@deloitte.com

Mexico
Arturo Garcia Bello
Energy, Resources & Industrials Leader
Deloitte Mexico
Email: argarciabello@deloittemx.com

Middle East
Bart Cornelissen
Energy, Resources & Industrials Leader
Deloitte Middle East
Email: bpcornelissen@deloitte.com

Netherlands
Eric Vennix
Energy, Resources & Industrials Leader
Deloitte Netherlands
Email: evennix@deloitte.nl

Norway
Johannes Wiik
Energy, Resources & Industrials Leader
Deloitte Norway
Email: jwiik@deloitte.no

Peru
Antonio Mella
Energy, Resources & Industrials Leader
Deloitte Peru
Email: amella@deloitte.com

Russia
Gennady Kamyshnikov
Energy, Resources & Industrials Leader
Deloitte Russia
Email: gkamyshnikov@deloitte.ru

South Africa
Andrew Lane
Energy, Resources & Industrials Leader
Deloitte South Africa
Email: alane@deloitte.co.za

Spain
Felipe Requejo
Energy, Resources & Industrials Leader
Deloitte Spain
Email: frequejo@deloitte.es

Singapore
Brent Vasconcellos
Energy, Resources & Industrials Leader
Deloitte Singapore
Email: bvasconcellos@deloitte.com

Turkey
Elif Duþmez Tek
Energy, Resources & Industrials Leader
Deloitte Turkey
Email: etek@deloitte.com

United Kingdom
Julian Small
Energy, Resources & Industrials Leader
Deloitte UK
Email: jsmall@deloitte.co.uk

United States
Stanley Porter
Energy, Resources & Industrials Leader
Deloitte US
Email: sporter@deloitte.com

Contributors

Oil, Gas & Chemicals

Rajeev Chopra
Global Leader
Energy, Resources & Industrials
Deloitte Touch Tohmatsu Limited

Duane Dickson
Oil, Gas & Chemicals Leader
Deloitte US

Johannes Wiik
Energy, Resources & Industrials Leader
Deloitte Norway

Wolfgang Falter
Sustainability Leader
Deloitte Germany

Bart Cornelissen
Energy, Resources & Industrials Leader
Deloitte Middle East

Tim Archer
Oil, Gas & Chemicals Leader
Deloitte North & South Europe

Power, Utilities & Renewables

Stanley Porter
Global Sector Leader
Power, Utilities & Renewables,
Deloitte Touch Tohmatsu Limited

Laureano Alvarez
Partner, Consulting
Power, Utilities & Renewables
Deloitte Spain

Marlene Motyka
Global Renewable Energy Leader
Deloitte US

Felipe Requejo
Global Consulting Leader
Power, Utilities & Renewables
Deloitte Spain

James Thompson
Power, Utilities & Renewables Leader
Deloitte US

Mining & Metals

Andrew Swart
Global Sector Leader
Mining & Metals
Deloitte Touch Tohmatsu Limited

John O'Brien
Partner
Deloitte Australia

Tim Biggs
Mining & Metals Leader
Deloitte UK

Additional contributors

Geoff Tuff
Principal Consulting
Deloitte US

Tarek Helmi
Partner Consulting
Deloitte Netherlands

Kate Hardin
Executive Director
Energy, Resources & Industrials
Center for Research
Deloitte US

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