



Big Oil and Alternative Energy

Posted by [Robert Rapier](#) on May 3, 2006 - 7:11pm

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[editor's note, by Prof. Goose] TOD welcomes Robert Rapier as a contributor.

First of all, a disclaimer for those who don't know: I work for Big Oil, but my opinions should never be misconstrued as the opinions of my employer or of Big Oil.

I ran across the following editorial in The Bellingham Herald: [Drilling is No Answer to U.S. Oil Dependence](#)

It's not as if the money we are all spending is just disappearing into the ether. Exxon's latest quarterly report showed \$8 billion in profits. Other oil companies are enjoying record profits as well. If you are a stockholder in these companies, congratulations. But we hope you recognize your increased nest egg is coming at the cost of every American citizen, business and the economy. Anyone with stock in these companies should be pushing the board of directors and executives to reinvest a large part of the profits in research for new alternative energy sources.

This is a good editorial, and worth your time to read. But I want to focus on the last sentence above. The idea of reinvesting profits into alternative energy is something that has been repeated in the media, by politicians, and by ordinary citizens. However, this is just wishful thinking.

While Big Oil is investing some money into alternative energy, for the most part they see the extraction and refining of oil as the core business for a long time to come. From what I have seen, the phrase "We aren't running out of oil" is not just a line to appease concerned parties. It is the sincere belief of those making the claim. Right or wrong, it is this belief that is driving current investment decisions.

Even BP, who has generated a lot of publicity from their alternative energy investments, is still investing far more into the core oil business. BP's CEO John Browne admitted as much recently on [CNN's We Were Warned](#):

John Browne: We are investing \$15 billion in the oil and gas business because it is up and running.

Frank Sesno: So alternatives are still a drop in the bucket.

John Browne: At the moment, of course they are.

When Big Oil decides that there is money to be made from alternative energy, they will start moving in that direction. Concerns about Global Warming will be unlikely to accelerate this move, unless it clearly and directly affects profits. There is no guarantee that oil companies won't miscalculate and make their move too late. But the investment decisions will be based on enhancing shareholder return, and right now the general belief is that the best way to achieve this is by investments geared toward bringing more fossil fuels to market.

I am not making judgments about the wisdom of this course of action. I am just stating the way it is. To stimulate a serious move away from fossil fuels, the market is going to have to drive prices up much higher, or the government is going to have to intervene. Government intervention can take several different forms. One, they can subsidize alternative energy technologies that they believe have the best opportunity to compete against fossil fuels. I don't particularly favor this option, because I don't believe the government will necessarily fund the best long term options.

The second way government can intervene is to substantially raise taxes on fossil fuels, while leaving the (renewable) alternatives untaxed and unsubsidized. This would allow the alternatives to compete against one another on a level playing field. I also believe that government should intervene in a BIG way to encourage conservation and prepare us for what's to come, but that is a subject worthy of its own essay.



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