How BP went from eco poster child to possible takeover target

fortune.com/2025/02/26/bp-stock-price-news-strategy-esg-investor-presentation

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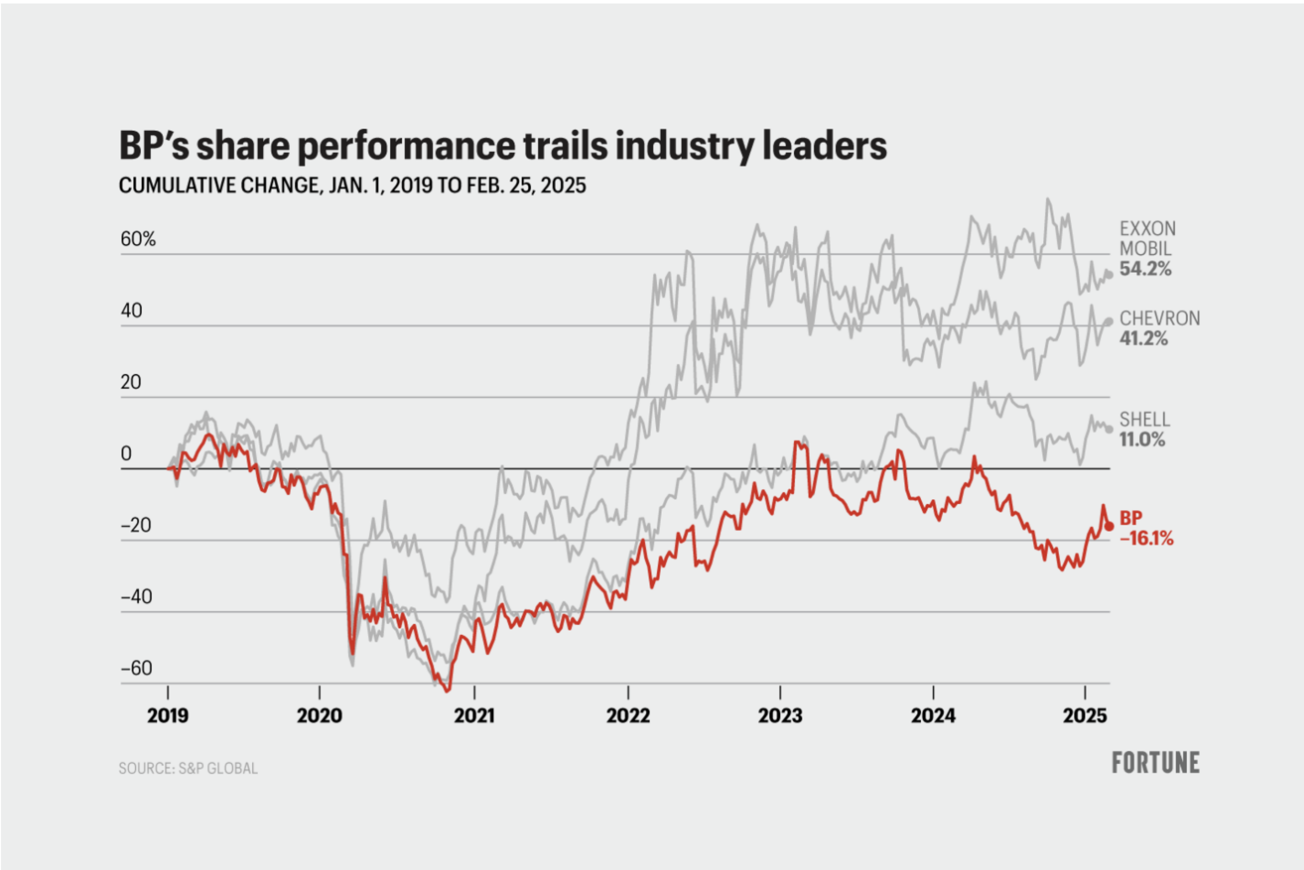

For decades, BP—the U.K.-based oil and gas giant that is No. 25 on the Fortune Global 500—has tried to position itself as an energy company with the bigger picture in mind.

From an eight-year advertising campaign in which it branded itself as "Beyond Petroleum," to the extensive mea culpas following 2010's Deepwater Horizon catastrophe in the Gulf of Mexico, BP wore its environmental intentions on its sleeve. The rhetoric was matched by substantial investment in renewables, such as buying Lightsource, Europe's largest solar energy producer.

Those efforts culminated in a February 2020 announcement from incoming CEO Bernard Looney that BP intended to be a net-zero carbon emitter by 2050. While climate activists scoffed at the distant target, the company was the first, and to date the only, major oil company to commit itself to such a goal. "We want to change—this is the right thing for the world and for BP," Looney said in a statement.

Things certainly did change, but not in the ways BP had anticipated.

Instead, the past five years have included a succession of events that have hammered BP's strategic direction. It started with COVID, which upended the global economy and energy markets, torpedoing oil prices. Russia's invasion of Ukraine was another shock, forcing BP to divest its 20% stake in Rosneft and take a $25 billion write-down. Then, in 2023, Looney resigned abruptly after admitting he hadn't disclosed prior relationships with BP employees to the board. And in what delivered the biggest blow to BP's long-term plans, Donald Trump was reelected U.S. president, promptly withdrawing the nation from the Paris climate accords and giving oil and gas producers a champion in the White House.

That shifting terrain has left BP on unstable ground. While shares of its energy company peers soared on increased demand for fossil fuels and the promise of Trump's deregulatory regime, BP's fell nearly 18% in 2024. It reported a $2 billion loss in the fourth quarter, and said it is preparing a major shift in strategy. That weakness created an opportunity for activist investor Elliott Management to pounce. The firm, led by the bare-knuckled Paul Singer, has amassed a 5% stake and is reportedly calling for BP to sell off assets. A merger with Shell may also be in play.

Responding to that pressure, CEO Murray Auchincloss, the 27-year BP veteran who replaced Looney, on Feb. 26 announced "a fundamentally reset strategy" at an investors' presentation. The company will cut its investment in renewables, increase oil and gas spending by $10 billion annually, and look to sell off $20 billion in assets, which could include Castrol, its lubricant business. (BP and Elliott Management did not respond to requests for comment.)

BP's troubles stem from its pivot to renewable energy before financial markets were ready for it, says Usha Haley, a professor of international business at Wichita State University. "In an industry where timing is everything, BP made the right bet at the wrong time," she says.

Shareholders revolt against ESG

Something dramatic happened after the price shocks of the pandemic and the Russia-Ukraine war.

Tom Seng, who teaches business at Texas Christian University after a 30-year career in the energy industry, says that after years of supporting environmental, social and governance (ESG) strategies, investors revolted. "Shareholders woke up and said, 'No no, we have been bankrolling you for decades, and we want the returns we were promised,'" Seng notes. "'You are going to focus on free cash flow, share price, and dividends.'"

Other companies were able to pivot, but BP was too tied to a renewable strategy, Seng says. He attributes that in part to BP being a U.K. company, where environmental and geopolitical pressures create a far different business climate. Environmental activists have aggressively protested U.K. energy companies, and Russia's invasion of Ukraine, which choked off natural gas supplies for much of Europe, forced a renewed emphasis on energy efficiency across the continent. The U.K. is also a signatory of the Paris Agreement, which created additional pressure.

BP made renewables core to its identity,Seng says. Even the Deepwater Horizon disaster—which cost BP billions in damages and stained its reputation—helped push the company to position itself as a steward of the environment, he notes. “We will be the energy leaders,” BP declared, according to Seng. “We are not an oil and gas company. You will see our trademark out there as a renewable company.”

One irony of BP’s current predicament is that its struggles have come just as the world’s appetite for electricity is soaring. AI’s huge demand for power means there is a need for energy from all sources, including renewables. That makes BP’s renewable assets particularly valuable, whether they are owned by BP or sold off as part of a reorganization driven by Elliott.

“The thing with a renewable asset is, once you’ve got it up and running, it then turns into a cash machine, because the service costs are relatively low,” says Jonathan Robinson, a London-based energy sector analyst at Frost & Sullivan, a research and consulting firm. “So if BP was forced into anything near a fire sale, then somebody acquiring it would do well. They avoid all the costs, they avoid all the hassle, and renewables will always get primacy in the market over fossil fuels.”

While breaking up BP is a possible scenario, so too is an acquisition by Shell, a prospect that has been the source of speculation in the U.K. financial press for years. A merger between Shell (13th on the Fortune Global 500) and BP (25th) would create a global energy giant better positioned to compete with companies like Exxon Mobil and Chevron, says Robinson. The tie-up between two U.K.-based companies might also be favored by the British government, as it would create a new “national champion,” he says.

The government might also prefer an acquisition by Shell than Aramco, the Saudi oil colossus, Robinson says. Gulf states have been swallowing up U.K. assets like its prize soccer teams, and they may see BP as one more attractive jewel to add to their collection, he says.