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# The energy transition in oil and gas

## May roundup

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Hi everyone,

The last month has seen the oil majors escape relatively unscathed from their AGM season, with investors appearing to be more focused on keeping the industry's super profits rolling in than in putting in place effective plans for the energy transition. I'll be looking at the growing disparity in attitudes between investors in European and US majors.

I'll also be digging into the IEA's latest report on energy investment - showing an ever-increasing rise in clean energy investment, just not by the oil and gas industry. The effects of the US Inflation Reduction Act continue to be felt throughout the industry, with more major CCS-related projects announced by TotalEnergies and Exxon.

As always, please share this newsletter with colleagues if you find it interesting - they can sign up [here](#).

Thanks, Murray

P.S. The eagle eyed among you will have spotted the newsletter was missing from your inboxes last month; Covid finally caught up with me and took me out for a few weeks but normal service has now resumed.

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Stat of the month:

1%

The share of oil and gas industry's cash spending on low carbon investment in 2022 - IEA



## Oil and gas in the transition

May (and the tail end of April) saw the oil and gas majors host their AGMs, which meant continued debate among investors about climate targets and strategies. [TotalEnergies saw record levels of support](#) for a resolution calling for faster emission reductions this decade, with 30% of shareholders backing the proposal. Levels of support at [Shell](#) stayed steady at 20%, while the nearly 17% at [BP](#) was an improvement on the previous year, but down on the 20% support the resolution received in 2021. The meetings also saw a level of protest not seen in almost any other sector, with BP and Shell spending large parts of the meeting forcibly removing protesting shareholders, while activists outside Total's AGM were tear gassed by French police.

The significant difference in investor attitude to the energy transition across the Atlantic was clear at [Exxon's and Chevron's](#) shareholder meetings. Climate resolutions at both only attracted support from 11% and 10% of investors respectively, compared to 28% and 33% the previous year. Their attitude to dissent was also noticeably different, with their meetings taking place online to avoid the protests seen by their European counterparts.



**“If the companies cannot provide consistent data, it’s very hard to trust the figures they report and the emissions reductions they claim are accurate”**

This lack of support for climate action at the US majors - both of which are planning on increasing oil and gas production - shows the extent to which investors are prioritising short term financial returns over the long term viability of the company (and the planet). Coming off the back of a year of record profits and returns to investors, it may not be too surprising that shareholders were keen to keep the cash flowing for longer. But with oil prices now stuck in the USD 70s and European gas prices back down to pre-crisis levels, it will be interesting to see how investors' attitudes to climate action change should the industry's super-profits come to an end.

# Decarbonisation strategies

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Much of the industry's claims to credible climate action rest on companies' efforts to reduce emissions from their own activities - their 'Scope 1' emissions. Yet a recent [academic paper](#) has called into the question the credibility of the data disclosed by major oil and gas companies. The study checked the internal coherence of data provided to the Carbon Disclosure Project (CDP), assessing whether Scope 1 emissions, when disaggregated by different categories, such as region or type of gas, added up to a consistent total figure. They did not. For 33 companies over the last decade, 38.9% of reports included mismatched results. At a company level, some of the results were even more startling, with 93.1% of Shell's reports being internally inconsistent. If the companies cannot provide consistent data, it's very hard to trust the figures they report and the emissions reductions they claim are accurate.



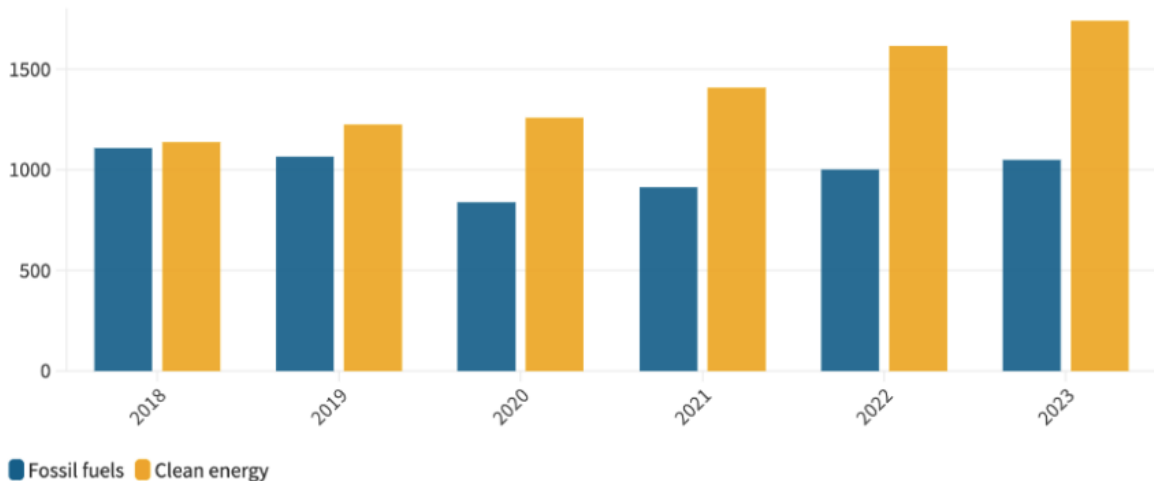
## Clean energy investments

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The IEA published its annual assessment of global energy investment, which as ever is a treasure trove of data and insights. The big story leading the report is the growing divergence in investment between fossil fuels and clean energy. Five years ago, for every dollar spent on fossil fuels, one was spent on clean energy. Now, for every dollar spent on fossil fuels, 1.7 is spent on clean energy, and the gap is growing. Not fast enough though - to avoid breaching 1.5°C, for every dollar spent on fossil fuels in 2030, nine must be spent on clean energy.

## Global investment in clean energy and in fossil fuels, 2018-2023

USD billion

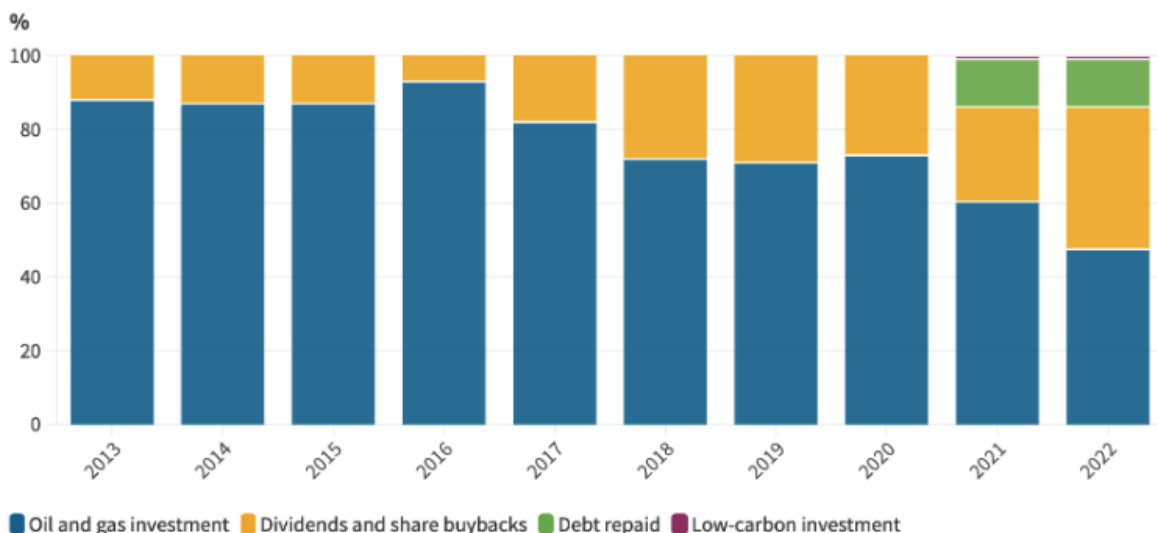


Source: IEA

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Investment in fossil fuel supply is set to rise by 6% this year, though much of this increase is driven by cost inflation, with only large Middle Eastern national oil companies spending “much more”. Whereas in the 2010s three-quarters of the industry’s cash went into new supply, this is now down to half - with the majority now going to dividends, share buybacks and paying off debt, all of which keeps investors happy. Just 1% of the industry’s cash, or 5% of its total investment, went into low-carbon investment last year. Despite being awash with cash, the industry isn’t boosting supply like it used to and is having to pay out more and more to keep investors happy.

## Cash spending by the oil and gas industry, 2013-2022



Source: IEA

# Hydrogen and carbon capture and storage

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The US Inflation Reduction Act (IRA) is continuing to accelerate investment in hydrogen and carbon capture and storage (CCS). TotalEnergies and hydrogen company Tree Energy Solutions are planning to build a [USD 2 billion plant to produce synthetic methane](#). The plant will combine green hydrogen - made from renewable electricity - with carbon captured from burning waste to produce a hydrocarbon that is virtually identical to natural gas. The process's climate impact will depend on whether the renewable energy for the hydrogen is genuinely new (and therefore not taking clean electricity away from the grid), and whether the biomass being burned is sustainable. Regardless, both hydrogen and carbon capture are expensive, so synthetic methane will be eye-wateringly expensive, and so is likely to have very limited real world applications.

[Exxon has agreed its third major CCS deal](#) with an industrial partner - this time steelmaker Nucor. This project aims to make the most of the USD 85 per-tonne-of-carbon-stored subsidy offered by the IRA. Exxon must be confident it can capture the carbon for less, so it can open up a steady new revenue stream of government subsidies alongside its core oil and gas business.

Beyond the reach of the IRA, China National Offshore Oil Corporation (CNOOC) has commissioned an offshore CCS project - [the first such project in China](#). The facility will capture CO<sub>2</sub> that is currently trapped in the oil reservoir but which is released into the atmosphere as the oil is extracted. This differs from post-combustion CCS, which captures the carbon emissions from fossil fuels when they are burned.

The company claims that the stored carbon will be equivalent to planting nearly 14 million trees - though trees would remove carbon from the atmosphere rather than just prevent its release in the first place.



## Latest from Zero Carbon Analytics

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Bangladesh was one of the countries hit hardest by the global spike in gas prices in 2021 and 2022, unable to compete with wealthy European LNG buyers. In our [Zero Carbon Analytics briefing](#), we dig into how Bangladesh has become so reliant on LNG imports and will become even more so under current plans, the country's vulnerability to climate change and heat stress, and the opportunity for it to dramatically expand generation from renewable energy.

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In order to help gauge how oil and gas companies are positioning themselves in the energy transition, this newsletter specifically focuses on how they are moving into renewables and clean energy. To offer up-to-date analysis, it uses insight from media sources and subscription-based databases, like BloombergNEF.

Feel free to forward this newsletter on to colleagues!

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