The energy transition in oil and gas

July roundup

Hi everyone,

This month, climate news dominated headlines and my Twitter feed. Data on record-breaking global surface and ocean temperatures and decreasing Antarctic sea ice showed that we are firmly into unchartered waters. But you don't need a graph to see that something is going very wrong - wildfires in Rhodes, heat deaths in Phoenix and flooding in northern India are a bleak reminder of why the energy transition is so important, and the extent of what's at stake if it doesn't happen quickly.

For the oil and gas industry, things have continued on a well-worn trend. Efforts to reach an international agreement on phasing down fossil fuels were blocked by fossil fuel-producing countries. Investment in major new fossil fuel projects has continued. The industry is working on developing a climate initiative for COP28 that wouldn't address emissions from the products it produces - i.e. the majority of its emissions. More on all of that later in the newsletter.

One surprise this month was the UAE's COP28 plan. Although possibly the most ambitious document on fossil fuels from a COP host in the history of the UN climate talks, it is also riddled with loopholes and falls far short of what is needed. The plan ambitiously aims for an agreement to accelerate "the inevitable and responsible phase-down of all fossil fuels" leading to "an energy system free of unabated fossil fuels in the middle of this century." The Presidency also aims to work with countries and companies to halve the emissions from the oil and gas industry's operations and substantially shift the world toward fossil-free forms of transport. So far so good, but still no mention of reducing oil and gas demand or supply, phasing down fossil fuels this decade or ending exploration for more - all cornerstones of achieving the Paris Agreement goals.

Please share this newsletter with your networks if you find it interesting - they can sign up here. It's always great to hear from you, so do send any feedback or suggestions.

Thanks,
Murray

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Stat of the month:

75%

Proportion of the top 100 oil and gas companies that do not disclose how much they are spending on low-carbon investments.

Johnny McMillan, Unsplash/Getty

Oil and gas in the transition

This month's G20 meeting in India served as a not very promising prelude to the upcoming UN climate talks. The summit failed to produce a joint statement, with energy and climate policies proving a major sticking point. Saudi Arabia reportedly led the charge on blocking proposals to phase down unabated fossil fuels (fossil fuels without carbon capture) and was joined by Russia in opposing a tripling of renewable energy by 2030 - both key parts of the UAE's proposals for this year's COP. Worryingly, countries also failed to reach an agreement on delivering the climate finance that developed countries have already promised. A big question for COP will be whether Saudi ends up alone in opposing a fossil fuel phasedown, or whether it builds a broader alliance with other developing countries. The extent to which advanced economies commit on climate finance could be the deal breaker on whether they can build support from countries on the fence.

While the G20 debated whether to phase down the main source of planet-warming emissions, the fossil fuel industry returned to approving megaprojects that will run for decades to come. Exxon has set out a timeline for its proposed LNG project in Mozambique and US LNG developer NextDecade finalised its investment plans for its USD 18 billion terminal on the Gulf Coast. Chevron is also reported to be planning a new LNG terminal in the Eastern Mediterranean that could open up the huge gas reserves found off Israel and Cyprus.

Prospects for South Asian countries trying to access LNG improved this month, after they were priced out by Europe's dash for alternatives to Russian gas last year. Pakistan received its first response to requests to supply LNG in over a year, though is facing paying 30% more than current market prices for the gas. India signed a 14-year agreement with the Abu Dhabi National Oil Company (ADNOC) to supply 1.2 million tonnes per year in a deal worth USD 7-9 billion.

Annie Spratt, Unsplash

> **“We could well be on the verge of seeing the same industry responsible for the majority of emissions benefiting from large amounts of public money to clean them up.”**

To put that 1 million tonnes in context, just over 100 million tonnes per year of LNG contracts have been agreed in total this year. Major trading companies like BP, Shell, Vitol and Trafigura have bought up just over 50% of these contracts - more than all the country buyers around the world combined. This sets these companies up to be at the heart of the LNG market for decades to come, acting as the middleman between suppliers and consumer countries. They are no doubt looking to profit handsomely from selling those LNG supplies, as gas trading has proven a significant source of profit for these companies in recent years. They’re likely also stepping into the market to fill the gap left by European buyers who are - rightly - unwilling to sign long-term contracts in the face of rapidly falling gas demand, but will still need LNG supplies in the short term.

Oil prices still languished in the USD 70/barrel range, despite OPEC continually cutting its production to try and push up prices. The Financial Times Energy Editor’s take is that for years oil prices have been held up by concerns about the potential for a long-term shortfall - that demand would outstrip supply. Now, with new supplies from Guyana, Brazil, the US, Saudi Arabia and the UAE coming on to the market and demand set to flatline or fall, oil looks to be plentiful. If that’s the case, then we may be entering an era of lower-price oil.

Decarbonisation strategies

Leading figures in the oil industry continued to push for an industry-led approach to the sector’s role in climate change ahead of this year’s COP. Documents leaked earlier this year revealed that the COP28 team were working on building a ‘Global Decarbonisation Alliance’, which would aim to achieve net zero emissions from the oil and gas industry’s own operations (not including the oil and gas they sell) by 2050, and near-zero methane emissions by 2030. After a quiet couple of months, COP28 President Sultan Ahmed Al Jaber and TotalEnergies veteran CEO both used OPEC’s annual International Seminar to call on the industry to set these targets ahead of this year’s COP, so clearly the idea is still being pushed.

The proposals are remarkably similar to a range of existing industry-led initiatives, though the alliance could bring in more national oil companies which have so far made fewer climate commitments than their publicly owned counterparts. However, these plans ignore the elephant in the room - the overwhelming share of the industry’s emissions caused by the products it sells. Without targets to tackle these emissions - known as Scope 3 - this alliance could serve to bolster the industry’s reputation without addressing the most important issues.

The world’s oil and gas companies have “made almost no progress towards the Paris Agreement goals since 2021”, according to the latest assessment by the World Benchmarking Alliance and the

Carbon Disclosure Project (CDP). Out of the top 100 companies assessed, none had committed to end exploration for new oil and gas and only 25% even disclosed how much they spent on low carbon investments. Just 12% had decreased their own emissions (not including the Scope 3 emissions from the oil and gas they produce) in line with limiting warming to 1.5°C.

Petrmalinak, freepik

Clean energy investments

BP and TotalEnergies made major investments in German offshore wind this month, committing to invest EUR 6.8 and 5.8 billion respectively. The two companies have both continually committed to expand their investments in renewables, unlike most of their publicly-owned counterparts. For BP, the investments increase its pipeline of offshore wind projects by 70% to 9.2GW, just shy of its 10 GW by 2030 target. Not only are the projects going ahead without government subsidy, but the auction saw the companies competing to make the highest payments to the German government. This shows just how far the industry has come in driving down costs and further undermines any idea that renewables are expensive or a drain on the public purse.

While BP and TotalEnergies were proudly promoting their commitment to renewable energy, Shell was reported to be quietly looking to sell off its renewables wing. According to Bloomberg, the company is looking at a range of options for its renewables operations, which have come under scrutiny since the new CEO Wael Sawan took over the company.

Hydrogen

Japan and South Korea's plans to use hydrogen or ammonia alongside fossil fuels in power plants may increase, rather than decrease, total emissions according to a new study by the Breakthrough Institute. The technology - known as co-firing - is central to Japan's 'Green Transformation' agenda, which it has promoted across South East Asia. The study found that if the hydrogen or ammonia is produced using fossil fuels - which Japanese industries are already signing up to do - it can result in "considerably more carbon emissions than if the power plants were to burn only pure coal or natural gas."

Carbon capture and storage

Exxon bought the US' largest CO2 pipeline network through its purchase of Denbury Resources for USD 5 billion this month. Exxon described the move as part of its low carbon investments and move into 'carbon management', aiming to use the pipeline network to expand its carbon capture and storage (CCS) operations. Denbry has also built up significant expertise in Enhanced Oil Recovery (EOR), where captured carbon is used to extract more oil from existing fields, which Exxon may be keen to tap into. The deal also puts Exxon in a strong position to benefit from the significant US government subsidies for CCS implemented through the Inflation Reduction Act. We could well be on the verge of seeing the same industry responsible for the majority of emissions benefiting from large amounts of public money to clean them up.

Finance

BloombergNEF published a fascinating investigation this month looking at how ESG funds - intended for environmental, social and good governance goals - ended up financing the expansion of the world's largest fossil fuel company. The investigation found that shares in Aramco's pipeline subsidiaries were sold to two specially-created companies, which then issued bonds to cover the cost of the shares. Since the two companies were seen to have no direct links to the fossil fuel industry, they were highly rated by ESG rating firms, despite only existing to hold the pipeline shares. Funds managed by firms including UBS, Legal & General Investment Management and HSBC were invested in the ESG bonds, which ended up contributing to the billions Saudi Aramco has raised to expand its oil and gas pipeline business. The banks involved declined to comment to BloombergNEF on the findings.

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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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