
The energy transition in oil and gas

December roundup

Hi everyone,

Happy New Year and welcome back to the newsletter after an extended hiatus while I managed the Zero Carbon Analytics team for a few months. Normal service will now resume, with a monthly round up of the biggest stories on how the oil and gas industry is facing the energy transition.

December was a huge month for the industry with an agreement at COP calling on countries to transition away from fossil fuels. The UAE tried - with limited success - to launch a new climate initiative for the oil and gas industry, and CCS may have reached a turning point in a decades-long battle to define its role in the energy transition.

Oil prices remain low in the USD 70s and European gas prices have hit a five-month low despite an ongoing war in the Middle East, OPEC holding back more than 2 million barrels of oil per day and winter in the Northern hemisphere. OPEC seems to be pushing hard to stop oil prices dropping even lower, while a US energy consultancy warned that [the market will be oversupplied until the end of the decade](#), due to new production from countries like the US and Guyana.

One story from November that's worth your time is [this incredible exposé of Saudi Arabia's 'Oil Demand Sustainability Programme'](#). The oil-rich country is allegedly pushing technologies such as supersonic jets and low-cost combustion engine vehicles in Africa to ensure ongoing demand for its primary export. [The official documents are well worth a read](#) to understand just how Saudi intends to slow the energy transition.

As always, if you find the newsletter interesting and useful please share it with your colleagues and contacts, who can subscribe [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:

USD 3.5 trillion

The [annual investment in carbon capture and storage](#) that would be required to limit warming to 1.5°C with oil and gas production continuing based on current trends.



Oil and gas in the transition

For the first time in the 28 year history of the UN climate talks, countries agreed on the need to ‘transition away’ from fossil fuels - prompting a flurry of headlines describing COP28 as a ‘[landmark](#)’ summit and the deal as ‘[historic](#)’. This commitment on the fossil fuel transition was the key takeaway coming from the summit, despite states with fossil fuel interests managing to secure a line recognising the role of ‘transitional fuels’ ([widely interpreted as gas](#)). While on the one hand it’s slightly staggering that it has taken this long for countries to commit to phasing out the main source of global warming, on the other, transitioning off fossil fuels is now the bare minimum action and even the most reluctant states have signed up. The message to investors and companies is abundantly clear; the fossil fuel era is coming to an end.

The oil industry has, somewhat unsurprisingly, thrown its weight behind the ‘UAE Consensus,’ with the oil majors and even [OPEC](#) and the [American Petroleum Industry](#) supporting the deal.

COP also saw a flurry of fossil fuel commitments from countries. [Spain, Kenya and Samoa joined the now 24-member Beyond Oil and Gas Alliance](#), while [Colombia, Samoa, Palau and Nauru](#) laid out their support for a Fossil Fuel Non-Proliferation Treaty. [Australia and Norway joined the Clean Energy Transition Partnership](#), committing to end international finance for fossil fuels.

Meanwhile, US oil major [Chevron announced](#) an [11% annual boost in spending](#) on oil and gas projects for 2024 and [Exxon plans to increase](#) its oil and gas output [by around 10%](#) by 2027.



Sherif Ashraf 22, Shutterstock

Decarbonisation strategies

One of the centrepieces of COP President Sultan Al Jaber's plan for the summit was the Oil and Gas Decarbonization Charter. 50 oil and gas companies signed up to the Charter, which was meant to demonstrate the industry's commitment to climate action. While it was initially presented as a new initiative, [the commitments were almost identical to the existing Oil and Gas Climate Initiative \(OGCI\)](#), and they did not cover emissions from the use of oil and gas - which accounts for 80-95% of the industry's total emissions.

The Charter did secure new commitments from some national oil companies, including Azerbaijani SOCAR and Angola-owned Sonangol, but big names like Chevron, ConocoPhillips and the national oil companies of Kuwait, Qatar, Iran and China were notably absent. The inevitable criticism quickly followed, with UN Secretary General António Guterres saying the Charter ["clearly fall\[s\] short of what is required"](#) and US climate envoy John Kerry saying it was ["not enough"](#). [The OGCI will now start to implement the Charter](#), which really calls into question whether the agreement offers anything new.



Tim van der Kuip, Unsplash

"The battle over the role of CCS will continue, but we may be getting closer to it being viewed as the limited solution that it is, rather than a panacea for the fossil fuel industry."

Carbon capture and storage

COP28 may have been a turning point for the narrative on carbon capture and storage (CCS). In the run up to the summit, the [IEA stressed that an 'inconceivable' amount of CCS would be needed](#) to limit temperatures to 1.5°C [if oil and gas production and consumption continues based on current trends](#), requiring investment of USD 3.5 trillion a year. Oxford University's Smith School reached a similar conclusion, finding that a [high reliance on CCS would cost USD 30 trillion more](#) by 2050 than a reliance primarily on renewables with limited CCS.

Incredibly, the [US](#), [EU](#), [Norway](#), [Australia](#) and French oil major [TotalEnergies](#) - fossil fuel producers and traditionally CCS advocates - all spoke out during COP about the limitations of CCS and its role as only a partial solution to fossil fuel emissions. While anti-CCS advocates were unhappy about [CCS being included in the final COP text](#), it's notable that this was in the context of being for 'hard to abate sectors'. The battle over the role of CCS will continue, but we may be getting closer to it being viewed as the limited solution that it is, rather than a panacea for the fossil fuel industry.



Hydrogen

Although there was little sign of the [oil deals the UAE reportedly planned to make during COP](#), its state oil company ADNOC did announce agreements with Azerbaijani national oil company [SOCAR](#) and Japanese conglomerate [Mitsubishi](#) on 'low carbon' technologies, with a strong focus on using CCS to produce hydrogen and ammonia from natural gas.

Lobbying

As well as setting a record for the largest number of attendees at any COP, [the UAE conference also recorded the most lobbyists linked to the fossil fuel industry in attendance](#). The Kick Big Polluters Out coalition found that 2,456 fossil fuel lobbyists were registered to attend the talks, up from 636 last year and 503 at COP26 in Glasgow.

The larger presence of the fossil fuel industry could well have been in response to the growing threat

that an agreement would be reached on phasing out or phasing down fossil fuels. This fear was clearly displayed in [a leaked letter from OPEC's head speaking of the risk that “undue and disproportionate pressure against fossil fuels may reach a tipping point with irreversible consequences”](#) and calling on members to “reject any text or formula that targets energy i.e. fossil fuels rather than emissions.” [The tone of desperation in the letter](#) shows the extent to which OPEC sees potential action on fossil fuels as a major threat.



From Zero Carbon Analytics

OPEC has recently been having a war of words with the IEA, questioning the accuracy of its forecasts and accusing the body of “[unjustly vilifying the \[oil and gas\] industry as being behind the climate crisis](#).” Rejecting the IEA's forecasts of fossil fuel demand peaking this decade, OPEC is instead predicting healthy oil demand growth due to ongoing demand from petrol and diesel vehicles.

At Zero Carbon Analytics we looked at OPEC, the IEA and BloombergNEF's historic forecasts for the size of the global electric vehicle (EV) fleet - one of the key factors determining oil demand. We found that [OPEC has consistently underestimated electric vehicle adoption in its fleet predictions, and is consistently less accurate than other forecasters](#). Between 2015 and 2021, OPEC's average deviation from the actual global EV fleet size for 2022 was -59%. If OPEC is this wrong in its short-term forecasts for EVs, investors and governments should treat its projections of future oil demand with a significant degree of caution.

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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.

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