The energy transition in oil and gas

January roundup

Hi everyone,

The big news in January is a plan by the US to scale back liquified natural gas (LNG) exports and a move by fellow oil and gas superpower Saudi Arabia to halt a planned expansion of oil production capacity. Given the sheer size of both producers, and that both countries have historically been enablers of their oil and gas industries, these are major developments. More on both moves below.

At the start of a new year, analysts are predicting what 2024 will have in store for the oil and gas industry. Wood Mackenzie's outlook for 2024 highlights the following key trends:

- The growing size and importance of nationally-owned oil companies
- Increased consolidation of investor-owned companies
- Acceleration of the oil majors' 'sustainability' plans - through renewables, hydrogen or carbon capture and storage
- An increased focus on reducing emissions from production, including methane - particularly in the US where new rules will be coming into effect
- Companies focusing on reducing debt and keeping cash flowing to investors

In Rystad Energy's outlook for the upstream industry, investment in new projects is set to remain high - largely driven by gas and LNG projects - though the rate of growth is slowing. Although profits are set to fall from their 2022 'super' levels, the industry will likely maintain historically high profits over the coming years.

As always, if you find the newsletter interesting 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

New to the newsletter? Subscribe here!

Stat of the month:

1 million barrels of oil per day

Saudi Aramco's planned capacity expansion, which has been halted.

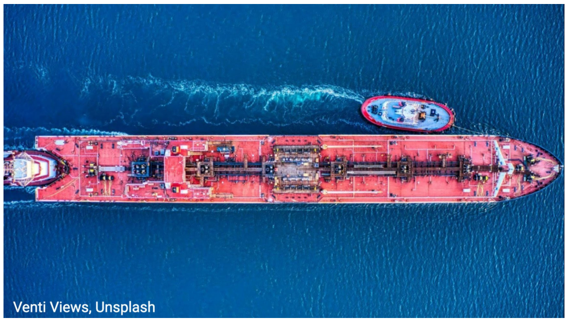
Waldemar Brandt, Unsplash

Oil and gas in the transition

The Biden administration has paused approvals for new LNG export permits until the Department of Energy completes a new review of their impacts. This pause will affect 17 projects currently awaiting approval, including the Calcasieu Pass 2 project, which if it goes ahead would be the largest LNG terminal in the US. The move was described as "an election-year sop to climate activists" by The Washington Post - with Biden reportedly aiming to bolster his climate credibility ahead of November's pivotal elections. The policies that any future Biden administration would put in place remain to be seen, as the administration has said it will weigh domestic gas prices, national security concerns and climate impacts in any assessment of future LNG exports.

It's far from a done deal that any climate test would be meaningful, and it's unclear if the review will include a measurement of true lifecycle emissions and whether or not gas is displacing coal or slowing renewable energy uptake. Meanwhile, Donald Trump has vowed to restart approvals on his very first day back, should he become president. As ever, Carbon Brief has an excellent deep dive on the LNG approval pause.

To put the suspension in perspective - the US became the world's largest LNG exporter for the first time last year, surpassing Australia and Qatar. While the global LNG market has been undersupplied for the past two years, with Europe driving prices through the roof in its efforts to phase out Russian gas, it is about to become heavily oversupplied. LNG export capacity worldwide is set to rise by 30% above current levels between 2025 and 2027 - an increase of 200 billion cubic metres (bcm). On top of that, there's 260 bcm of projects awaiting investment decisions. This comes amid forecasts by the International Energy Agency (IEA) that global gas demand is set to peak by 2030, based on current government policies.

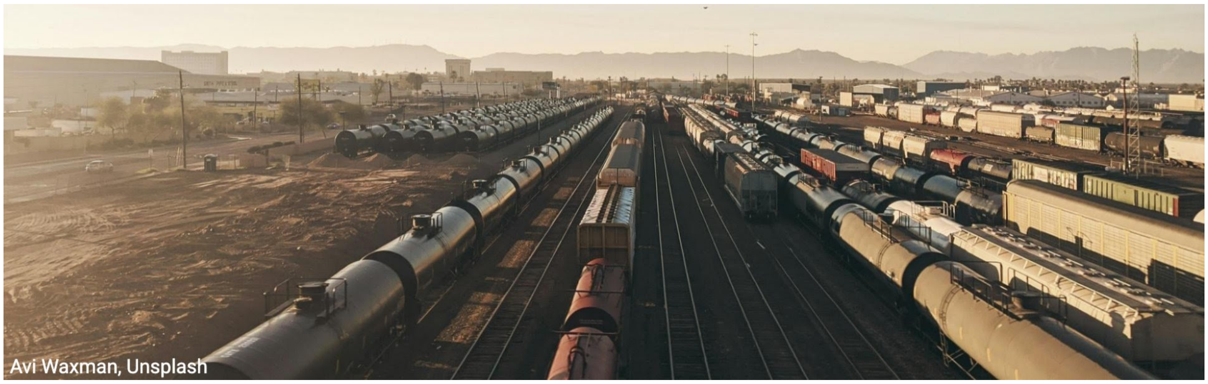


"It's far from a done deal that any climate test would be meaningful."

In news from the world's other mega oil and gas producer, the Saudi Arabian government ordered state-owned Saudi Aramco not to go ahead with a planned 8% increase in production capacity. The planned increase of 1 million barrels a day could now be kept in the ground, with the move potentially signalling a shift in the kingdom's projections of long-term oil demand. For years, Saudi Arabia has been saying there is a lack of investment in production and has backed OPEC's forecasts of growing long-term oil demand. Yet Aramco is already holding back around 25% of its production capacity as part of OPEC+ cuts, which are an attempt to raise prices amid increased oil production from non-OPEC producers like the US and Guyana. Bloomberg's energy and commodities columnist Javier Blas claimed that Saudi's decision has nothing to do with long-term demand but reflects an increased share of production coming from the US. However, if oil demand was strong in the long term, then Saudi would be confident about finding a market for more of its oil - which does not seem to be the case. As Financial Times (FT) investigations correspondent David Sheppard says, when it comes to Saudi, watch what they do, not what they say.

More news this month pointed to the fragility of demand for oil and gas. Japan's LNG imports were down by 8% in 2023 to the lowest level for 14 years, and India, allegedly one of the drivers of future LNG demand, has seen its imports of the fuel flatline for the last five years. While fossil fuel demand is already falling in the EU, the European Scientific Advisory Board on Climate Change has said the bloc will need a phase out to deliver net zero emissions by 2050. Even without government policies, demand is shifting, for example through the huge growth of e-bikes and e-scooters - worldwide there are now 280 million electric two and three wheelers. This growth is often overlooked by a focus on electric cars - of which there are just 20 million worldwide.

Production of oil and gas continued to break records. China reached record levels of domestic oil and gas production last year, Canadian producers are planning to increase output this year as the expanded Trans Mountain Pipeline is due to start operating, and Norwegian oil and gas exploration is set to grow - with the government encouraging companies to explore more in 'frontier' areas, like the Arctic. However, Oslo's efforts to expand exploration face a significant stumbling block after Greenpeace and Young Friends of the Earth won a court case this month. The environmental groups successfully argued that environmental impact assessments for three projects were invalid as they did not consider emissions resulting from the oil and gas extracted. The ruling could set a precedent and result in a much higher bar for approving projects in future. The Norwegian government has appealed the ruling, so the legal battle is set to continue.



Avi Waxman, Unsplash

Decarbonisation strategies

In the wake of Bernard Looney's abrupt departure as BP CEO, the company has appointed insider Murray Auchincloss as his replacement, signalling a continuation of its existing energy transition strategy. Auchincloss was a key architect of the company's plans to become what it described as an 'integrated energy company', and BP is one of the few majors that has retained targets to reduce oil and gas production before 2030.

Meanwhile, Exxon is suing an investor campaign group called Follow This in the US, trying to block them from filing a motion at its upcoming AGM. Follow This routinely tables resolutions at the shareholder meetings of investor-owned oil and gas companies to push for accelerated action on climate. It's rare for companies to use legal action to block investors from being able to vote on shareholder proposals.

Follow This has gained support for its resolution calling on Shell to align its medium-term emissions targets with the Paris Agreement. The move is likely to be the biggest ever shareholder push on Shell's climate policies, with Europe's largest asset manager Amundi and 26 other investors backing the resolution. In another blow to the company, researchers found that a type of carbon credit used by Shell and other major companies to offset their emissions are largely worthless. So-called cookstove credits, issued when cleaner or less energy-intensive cookstoves are provided to communities traditionally dependent on dirty fuel, do not avoid the emissions they claim, according to the research.

Clean energy investments

BP and Equinor have 'reset' a contract with the state of New York to provide electricity from a planned 1.3 GW offshore wind project. Citing "unforeseeable economic forces", the companies had requested to increase the agreed price for the electricity by two thirds, which the state rejected. It looks as though the project may still go forwards if the companies can agree a price with the state, according to the FT. The suspension reflects challenges across the offshore wind industry in passing on higher supply chain costs over the past year.

While the spotlight has moved away from the UAE now that COP is over, its state-owned oil company Adnoc has committed to increase its 'clean energy' spending by more than 50% to USD 23 billion by 2030. While that's a big uplift, it's still dwarfed by its USD 150 billion planned spending on oil and gas production over the next few years.

Karsten Würth, Unsplash

Hydrogen

Mitsubishi is planning to invest USD 690 million to build the world's largest green hydrogen production plant in the Netherlands. The plant would be a staggering 30 times larger than the world's current largest facility and aims to start producing hydrogen for use in industry and power generation in 2029. While this facility represents a huge increase in capacity, the IEA has significantly revised down its forecasts for the worldwide production of green hydrogen, with few projects reaching a final investment decision in 2023. For Europe, the IEA reduced its forecast for hydrogen production by more than 50% compared to its 2022 forecast.

Deals

The wave of consolidation in the industry has continued, with Chesapeake Energy buying Southwestern Energy in a USD 7.4 billion all-share deal, creating the biggest natural gas producer in the US. More money is flowing into mergers and acquisitions compared to exploration, which could be a sign of an industry working to maximise profit from production, rather than seeking long-term expansion.

From Zero Carbon Analytics

If you're in Brussels, we'd love you to join us for the launch of our upcoming report **"On thin ice: Norway's fossil ambitions and the EU's green future"**, published by Zero Carbon Analytics, WWF, Oil Change International, Transport & Environment and Greenpeace. The event, co-hosted by MEPs Niels Fuglsang (Socialists and Democrats, Denmark), Michael Bloss (Greens, Germany) and Sirpa Pietikäinen (European People's Party, Finland), will take place at 08:00 CET on Wednesday 21 February at the European Parliament. Please register to attend here.

New to the newsletter? Subscribe here!

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!

Mailing address
Fora - 201 Borough High Street, London, SE1 1JA