The energy transition in oil and gas

February roundup

Hi everyone,

In the wake of the US pause on new LNG export approvals, Qatar and Canada are hoping to boost exports of LNG, while Shell is talking up long-term prospects for the fuel (though its assessment of demand dynamics is questionable). At the same time European demand for gas is evaporating, falling a staggering 20% in just two years. Demand on the continent is in fact experiencing a long-term structural decline, as we show in our latest report *On Thin Ice,* looking at whether the EU needs new gas production from Norway to meet its needs (it doesn't).

Not directly oil and gas related, but well worth a read is Michael Liebrich's analysis of five drivers of why net zero will be easier than you think for BloombergNEF:

- the exponential growth of solar, wind and batteries;
- transformation of energy grids;
- international rivalry between industrial powerhouse countries - and that there are now no 'hard to abate sectors';
- huge improvements in the efficiency and recycling of raw materials for the clean economy; and,
- the enormous reduction in primary energy that's needed to achieve the same outcomes in a clean economy.

While temperature records are being broken all around the world at a terrifying pace, it's nice to have a dose of optimism about the prospects for the transformation of the global energy system.

As always, please share the newsletter 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:

20%

The drop in EU gas demand in the last two years, according to IEEFA.


Marek Piwnicki, Unsplash

Oil and gas in the transition

The implications and fallout of US President Joe Biden's pause on new LNG export licence approvals continues to set the scene for the future of the super-chilled gas. Qatar has been widely reported as having announced a near 85% increase in LNG capacity by the end of the decade. Many analysts interpreted this as a direct response to the US pause, claiming that the expansion would squeeze the US and other rivals' market share. While there's no doubt that Qatar's increase in overall capacity is massive - and a major threat to global climate goals - the new announcement is only a 13% increase on the country's previous expansion plans.

Canada's Energy Minister Jonathan Wilinson has stated that he sees the US pause as an "opportunity" for his country. While Canada has no current LNG export terminals there are eight proposed or under construction, mostly on the Pacific coast, as the country looks to expand gas exports - largely to Asia.

Shell forecast a strong future for its products in its latest market outlook, predicting a 50% increase in global LNG demand by 2050 led by China, South and South-East Asia. However, as Reuters columnist Clyde Russel was quick to point out, those predictions don't match current trends in the region. In particular, with coal still vastly cheaper than LNG, and available domestically in key countries like China, India and Indonesia, there are limits to how much coal-to-gas switching is likely.

Limits on demand aren't confined to Asia, with European traders wondering where the continent's demand for gas has gone after it fell a staggering 20% in just two years.

Turning to oil demand, the IEA expects India will be the largest driver of oil demand growth between now and 2030, taking the lead from China. Nearly half of that will be accounted for by the consumption of diesel, while the electrification of the country's vehicle fleet means that petrol demand is set to rise by just 0.7%.

Petrobras intends to be one of the last remaining oil producers on the plant, laying out a USD 100 billion plan for offshore exploration and production. The expansion would see the state-owned Brazilian company grow internationally, with projects in Norway, the UK, Netherlands, West Africa and Guaya under consideration. It remains to be seen, however, if Petrobras can compete with ultra-low-cost production from the Middle East to be among the last survivors of fossil fuel extraction.


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Decarbonisation strategies

ExxonMobil has continued its heavy-handed approach to challenges to its energy transition strategy. In response to its threat of legal action, Follow This and Arjuna Capital have withdrawn their motion for Exxon to set more ambitious climate targets at its upcoming shareholder meeting. Exxon's tactics drew a rebuke from major investors, including the head of Norway's sovereign wealth fund, who described the move as "very aggressive".

Clean energy investments

BloombergNEF published its annual Energy Transition Investment report at the end of January, which as always includes some fascinating numbers. In 2023:

- Investment in carbon capture and storage (CCS) reached USD 11 billion, nearly doubling the previous year's total. Whereas CCS investment was previously concentrated in hydrocarbons and power, it is now also expanding into chemicals, hydrogen production and direct air capture.
- Investment in "clean" hydrogen more than tripled to USD 10.4 billion, dominated by investment in electrolyzers for green hydrogen production.
- Global spending on electrified transport rose by 36%, with more than half of that taking place in Asia. Passenger electric vehicles dominate this sector, accounting for 85% of spending.


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"Our analysis shows that if the EU meets its climate targets, gas supply from current projects in the EU, Norway and Algeria and existing contracts are set to exceed demand by 2035."

Carbon capture and storage

Equinor and BP's efforts to build the world's first gas-fired power station with carbon capture and storage (CCS) came a step closer this month, as the UK government granted development permission to the scheme. The project, which is due to reach a final investment decision later this year, would provide 860 MW of "flexible, dispatchable low carbon electricity", aiming to capture 2 million tonnes of CO_2 per year for storage under the North Sea.

Hydrogen

Equinor also received local planning permission for a 'blue' hydrogen production facility in the UK, using gas and CCS. The project is intended to provide "low carbon" hydrogen to local industry and to be blended with gas for use in the nearby Triton power station.

In its efforts to deliver the EU's ambitious hydrogen strategy, the European Commission has announced that it will provide EUR 6.9 billion of public funding for hydrogen infrastructure projects. The initiative aims to support the deployment of 3.2 GW of hydrogen electrolyzers, the deployment or repurposing of 2,700 km of pipelines for hydrogen and the construction of import terminals for hydrogen products.


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Deals

February was the month the industry's mega-deals hit the rails. Woodside and Santos have ended talks which would have created an Australian LNG giant. While the companies disclosed little detail about why the deal foundered, opposition to Santos' Barossa gas project in the Timor Sea has seen the company struggle in recent years.

ExxonMobil may be about to sink Chevron's hopes of buying into its lucrative Guyanese operations through its proposed buyout of Hess. Chevron is in the process of buying Hess - which holds a minority stake in the Exxon-led consortium in Guyana - for USD 53 billion. However, this month Exxon claims it has a right to first refusal on any sale of part of the Guyanese operations and may block Chevron's bid.

One deal getting going this month is Diamondback's purchase of Endeavor Energy Resources for USD 26 billion, continuing the wave of consolidation and mergers among domestic oil and gas producers in the US.

Finance

Barclays, Europe's largest financier of the fossil fuel industry, has announced new climate restrictions on its lending, including ending direct finance to new oil and gas projects. This, however, only covers a small fraction of the bank's fossil fuel lending, which is mostly to companies rather than directly to projects. While the new policy does place some restrictions on lending to companies that are expanding oil and gas production, there are significant exceptions that allow the bank a lot of latitude in how it applies them.

Vidar Nordli-Mathisen, Unsplash

From Zero Carbon Analytics

As the EU has committed to phase out imports of Russian fossil fuels by 2027, governments and companies have been calling for an expansion of oil and gas production to replace Russian supplies. Our latest analysis from Zero Carbon Analytics finds that such an expansion is not needed to satisfy future EU gas demand, as long as the bloc meets its long-term climate goals.

The *On Thin Ice* report looks at three scenarios for future gas demand and supplies from within the EU, including its existing contracts and imports by pipeline and LNG. Our analysis shows that if the EU meets its climate targets, gas supply from current projects in the EU, Norway and Algeria and existing contracts are set to exceed demand by 2035. The report comes at a pivotal moment in EU-Norway relations, as the former looks to phase out fossil fuels while the latter is looking to expand production further north into the Arctic.

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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!

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