Hello readers,

Just a week after it was reported that the world’s energy emissions hit yet another record high, 1,300 people died in a climate-change fuelled heatwave in Saudi Arabia. The connections between the sluggish pace of global action to phase out fossil fuels and its impacts seem increasingly stark. Interestingly, despite fossil fuel emissions hitting a record high - global energy use from gas has flatlined for the last two years - with oil driving the vast majority of the increase in emissions.

This month’s edition takes a look at whether we’re heading for a massive oversupply of oil, and whether we’re reaching peak fossil fuel demand. Shell and Saudi Aramco have been battling it out, trying to buy up players in LNG trading, while BP has frozen its development of new offshore wind projects. All that and more below.

Please share this newsletter with your colleagues and contacts who can subscribe here. It's always great to hear from you, so do email me any feedback or suggestions.

Thanks,
Murray

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Oil and gas in the transition

State-owned companies spending more on oil and gas

The world is now spending nearly twice as much on clean energy as it is on gas, oil and coal, according to the International Energy Agency (IEA). However, investment in oil and gas extraction is still rising and is expected to increase by 7% in 2024, with Middle East and Asian state-owned oil companies accounting for nearly all of this increase. National oil companies in these regions significantly increased their investments in oil and gas extraction in recent years, while investments from the major investor-owned oil companies declined. The IEA report also found that the super-profits the industry made from high oil and gas prices were largely returned to shareholders rather than invested by the companies. As well as expanding their oil and gas activities, national oil and gas companies are spending almost nothing (relatively speaking) on clean energy.

A ‘staggering’ glut of oil

In its latest market outlook, the IEA forecast that oil markets will be hugely oversupplied by the end of the decade. It found that “total supply capacity is forecast to rise to nearly 114 million barrels a day by 2030 – a staggering 8 million barrels per day above projected global demand”. This would lead to unprecedented spare capacity (other than during the peak of the Covid-19 lockdowns), putting enormous downward pressure on oil prices. If demand plateaus as the agency predicts, then this would squeeze the finances of the oil and gas companies, but also make oil cheaper relative to alternative cleaner options, like electric vehicles.

Peak fossil fuel demand?

Energy nonprofit RMI’s latest report on the ‘Cleantech Revolution’ is worth a read, not least for its digging into the prospects of peaking fossil fuel demand in different parts of the economy. According to its analysis, we reached peak fossil fuel demand in industry in 2014, buildings in 2018, power and heat in 2023 and transport could be as soon as 2024/25.
Fossil fuel adverts feeling the heat

UN Secretary General António Guterres called on all countries to ban advertising from fossil fuel companies, and urged news media and tech companies to stop taking fossil fuel advertising money. He went on to call fossil fuel companies the “godfathers of climate chaos”, compared fossil fuel advertising to tobacco and called media companies that accept fossil fuel adverts “enablers to planetary destruction.”

In a remarkable example of just how questionable advertising and PR from the fossil fuel industry is, the Pathways Alliance, representing Canadian oil sands producers, removed all of its content relating to the environment from its website and social media in response to a new anti-greenwashing law. The Act requires all companies to be able to provide evidence for their environmental claims. Among the claims removed from the website was “Canada’s oil sands are on a path to reach net-zero emissions from operations.” I leave you to reach your own conclusions about whether the Pathways Alliance has the evidence to support that claim.

Oil and gas companies in court in the US

Legal efforts to hold oil and gas companies responsible for misleading consumers over their role in causing climate change and the resulting impacts of extreme weather could soon be headed to the US Supreme Court. Dozens of these cases are making their way through the US legal system, but none have yet gone to trial. One of the key issues at stake in these cases is whether they should be heard under state or federal law, with fossil fuel companies pushing for the latter which they believe will give them greater chances of success. This month, the Supreme Court asked the Biden administration to offer its view on one of the cases - often a critical sign that the court is set to take up the case. If it does, its ruling will be pivotal in determining whether these companies could end up facing billions of dollars of damages.

20% chance of finding oil and gas is a “very high” possibility

The South Korean President Yoon Suk Yeol publicly approved exploratory drilling off the east coast of the country, claiming there is a “very high” possibility of finding as much as 14 billion barrels of oil and gas - more than has been found in either Guyana or Namibia. Finding enormous reserves of oil and gas could transform the energy outlook of the energy importing country, with the president claiming that the prospects could provide enough gas to fuel the country for 29 years. However, despite the fanfare, the geologist who made the find has publicly stated that there is only a 20%
chance it would yield fuel during exploration. I wouldn’t bet on the country’s chances of becoming the world’s newest petrostate just yet.

Another court rules that fossil fuel emissions must be considered in permits

The UK Supreme Court has ruled that a local authority should have considered the emissions from burning oil, not just from extracting it, in its decision to approve the expansion of an onshore oil project in Surrey in the south of England. These downstream emissions, also known as Scope 3 emissions, account for around 90% of the oil and gas industry’s overall emissions. The decision follows a similar ruling in Norway, which found that the Norwegian government should not have approved three new oil and gas projects as the environmental impact assessments did not include the emissions and impacts from burning the extracted fossil fuels. Together, they represent a small but emerging precedent that could have a huge impact on limiting the permitting of new oil and gas projects in Europe and beyond.

The New Zealand government however is moving in the other direction, with plans to reverse a 2018 ban on offshore exploration for oil and gas.

Decarbonisation strategies

An end to Exxon’s legal shareholder battle

A US judge has ended the saga of ExxonMobil’s lawsuit against its own shareholders (see last month’s newsletter for the back story). The judge said the case can’t proceed as shareholder Arjuna Capital has committed to not file any further climate-related motions at future AGMs. The decision means that while Arjuna has had to stop its investor advocacy efforts with the company, ExxonMobil has also not been able to proceed with what would have been a precedent-setting case that could have restricted the rights of shareholders in the US to push for changes to company strategies. Beyond the courtrooms, Exxon is continuing to scale up its move into lithium mining, aiming to become one of the world’s largest suppliers of the mineral that is critical to batteries and electric vehicles. Despite lithium prices slumping 80% in 2023, Exxon is still aiming to have its first major project operational in 2027.

Saudi Aramco and Shell’s LNG rivalry
Saudi Aramco made its first move into the LNG market, signing a 20-year deal with US LNG developer NextDecade for 1.2 million tonnes a year. The fuel will come from a proposed expansion to NextDecade’s Rio Grande terminal in the Gulf of Mexico. It is likely that Armaco is buying the LNG in order to become a ‘portfolio’ player in the market, essentially a middle-man trading between producers and buyers and making money off the trades, an operation that has been very profitable for investor-owned oil companies in recent years. It’s a sign that Aramco wants to diversify away from its core oil business, and expects strong long-term demand for LNG. Shell also expanded its LNG trading business, buying up Pavilion Energy, which supplies more than one-third of Singapore’s power and industrial gas demand with LNG and piped natural gas. Aramco was also in the running to buy the company, showing the strong demand and competition between oil companies to increase their exposure to LNG markets.

Eni looks to sell oil and gas assets to finance its transition

Eni is reportedly planning on selling more than EUR 4 billion of upstream oil and gas assets to finance its energy transition plan. It is considering selling off operations in Indonesia, Cyprus, Alaska and Côte d’Ivoire, according to Bloomberg.

Indonesia’s Pertamina investing in ‘clean’ gas and geothermal hydrogen

Indonesia’s state owned oil and gas company Pertamina announced it is planning to invest USD 6.2 billion in ‘clean energy and technology’ over the next five years. This however includes more than doubling its ‘low carbon’ power generation capacity, which includes natural gas (which is not low carbon), alongside geothermal, solar power and biogas. The company is also working with Tokyo Electric Power Company on a geothermal-powered hydrogen project, which given the Japanese company’s involvement is likely to be for ammonia co-firing either in Indonesia or Japan.

Clean energy investments

The trend of shifting out, or slowing the growth, of renewables in the oil and gas industry continues, with BP announcing that it will pause all new offshore wind projects. According to Reuters, the move is part of a decision by BP’s CEO Murray Auchincloss to slow down investments in large low-carbon projects that he does not expect to generate cash for years to come. Instead, the company is seeking to invest in and acquire new oil and gas assets, particularly in the US.
Hydrogen & ammonia

The Financial Times took a deep look at Japan and South Korea’s efforts to promote hydrogen and ammonia (made from hydrogen) to reduce emissions from industry and fossil-powered electricity generation. Both countries are focusing on ‘blue’ hydrogen - made from natural gas and using carbon capture and storage to reduce emissions. As South Korean environmental group Plan 1.5 says, “The whole plan is based on a totally unrealistic reliance on an immature technology.” The piece may have touched a nerve, as Japan’s ministry of economy and industry quickly published an op-ed in the Nikkei defending its role in “leading the way” on hydrogen deployment.

As part of Japan’s push for the use of ammonia in coal and gas power stations, Japanese trading house Mitsui partnered with UAE oil and gas producer ADNOC on a USD 300 million project to produce ammonia from natural gas. The project is being financed in part by the Japan Bank for International Cooperation, which is owned by the Japanese government.

In Europe, progress on the roll out of hydrogen is not proceeding at the pace the industry once planned. Of a proposed network of 28,000 km of hydrogen pipelines, only one pipeline is under construction running just 30km in the Port of Rotterdam. The pipeline will transport ‘green’ hydrogen, made with renewable electricity, to Shell’s oil refinery. But the scale of the project is still tiny, in the words of the head of the project at Shell, “To put it into perspective, this is the largest renewable hydrogen facility under construction in Europe, and it constitutes just five to 10 per cent of the hydrogen demand of [the refinery].”

Carbon Capture and storage

Shell announced that it would proceed with two carbon capture and storage (CCS) projects in Canada that had long been in development. The Polaris project will capture emissions from the company’s Scotford refinery operations located in the Alberta oil sands (where the company’s existing Quest CCS project operates), with the CO2 transported to the Atlas carbon storage hub 22 km away.

Despite these projects going ahead, the broader prospects for CCS in Canada looks bleak.
According to a report published by Deloitte for the Albertan government, implementing CCS to comply with the proposed oil and gas emissions cap would make high-cost oil sands mines economically unviable. "We do not see any oil sands CCS investments being implemented," Deloitte said.

From Zero Carbon Analytics

This month we’ve published briefings that show that:

- **The EU already has sufficient supplies of gas to meet demand under the European Commission’s 2040 target**, with no need for any new long term gas contracts or any new upstream gas extraction projects. As a result, the large number of countries that are hoping to start or increase exports to Europe - such as the US, Azerbaijan, Mozambique, Nigeria and Senegal - face the prospect of having no additional demand from the region for them to fulfil.

- **Oil and gas companies are responsible for developing the methodologies that have led to them reporting methane leakage rates 94% lower than independent estimates.** The use of ‘emission factors’ developed by the industry have consistently underestimated emissions, particularly failing to capture ‘super-emitter’ events. To have accurate figures for methane emissions, the industry needs to shift from using estimates to measuring emissions.

- To deliver on the ‘UAE Consensus’ agreed at COP28, countries should halt the opening of new oil and gas fields and develop fossil fuel phase out plans in their next Nationally Determined Contributions (NDCs). **Our paper analyses the principles for achieving a just global phase out of fossil fuels**, and how this can be achieved in the run up to COP30. (IISD also published a briefing this month looking at how the transition away from fossil fuel production can be included in countries’ NDCs).
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!