The energy transition in oil and gas

November roundup

Hello readers,

As this year's UN climate summit is now underway we are going with a shorter, rapid-fire edition of the newsletter, as the chances are you're probably quite busy.

The risks of an immediate global energy crisis have waned since last month, with Israel choosing to target Iranian military sites rather than its oil and gas fields.

With Trump now set to take the White House, he has pledged an unprecedented rollback in environmental regulation and new efforts to boost US oil and gas production. But with oil prices declining, and huge amounts of spare capacity in OPEC countries, it remains to be seen whether US drillers want to "drill, baby, drill" if there's no one to buy their oil.

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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Stat of the month:

USD 26.2 billion

Total amount Chevron, Exxon, TotalEnergies, BP and Shell would need to borrow in 2025 to maintain payouts to shareholders. Reuters.

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Oil and gas in the transition

- Lower oil prices mean major oil companies will have to borrow billions of dollars to maintain shareholder payouts. Oil majors have significantly increased their dividends and share repurchases in the last two years, which has been seen as critical to maintaining their share prices and investor support. But with low oil prices, each company will have to take on billions of dollars in debt to keep these up.
- Something has got to give in the LNG market in the next few years, according to the International Energy Agency's World Energy Outlook. According to its analysis, emerging and developing economies generally need LNG prices to be about half the level that new exporting projects require to cover their costs. With Southeast Asia forecast to be the overwhelming driver of new LNG demand over the next decade, this cost battle between producers and suppliers, and gas and renewables, will be central to the future of LNG.
- The biggest oil and gas companies are set to spend more on oil and gas extraction next year, but are still spending half as much on exploration as they did a decade ago, according to Wood Mackenzie. The spending reflects companies' views of the transition - with demand higher than expected in the short term they are spending more on oil now, but uncertainty about long-term demand means there is much less willingness to seek out new sources of oil and gas that wouldn't come to market for many years.
- The European gas industry has walked away from over a year of talks on ensuring a just transition for workers that would have seen them receive job protection and retraining. Negotiations had been ongoing since mid 2023 between the industry and trade unions, facilitated by the European Commission, with the aim being to minimise the costs to 20,000 workers as the continent shifts away from fossil fuels. Eurogas, which represents more than 100 members including Shell, TotalEnergies and Equinor, declined to say why it was not backing the deal. But others involved in the talks said there were hopes that Eurogas could still work to a new agreement that would not be legally binding for its members.
- The US LNG industry could face new challenges if Trump becomes President, despite his promises to support and boost the industry. Trump has promised to introduce 60% tariffs on imports from China, which would likely respond by placing tariffs on, or cutting imports of, key exports from the US - LNG being among the most valuable. The result could be to cut US exporters off from one of their most significant LNG growth markets.

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Decarbonisation strategies

- BP has abandoned its target to cut oil and gas production by 2030, according to Reuters. BP originally planned a 40% cut, which it reduced to 25% in early 2023, but now appears to have abandoned completely. However, fear not; the company remains committed to net zero emissions by 2050 - just apparently not doing much to reduce emissions before then.

Clean energy investments

- Equinor has become the second-largest shareholder in offshore wind giant Ørsted, having built up a 9.8% stake in the company. The oil and gas major sees it as a way of gaining long-term exposure to what it considers a desirable and profitable market at a time when Ørsted's shares are perceived to be relatively cheap. The FT's Lex column doesn't think other European oil majors will follow Equinor's model of investing in other renewable companies - highlighting that each of the companies are pursuing different paths through the energy transition.

Wolfgang Weiser, Unsplash

Hydrogen & ammonia

- German regulators have approved plans for the construction of a EUR 19 billion, 9,000 km hydrogen grid, which aims to be fully operational by 2032. With Shell and Equinor abandoning plans for blue hydrogen production in Norway, and little progress on international hydrogen shipping, it remains to be seen whether Germany will be able to import enough hydrogen to fill those pipes.
- Green hydrogen has a massive cost problem, according to new research from Harvard University. The study assesses the storage and transport costs of the gas, finding that the predicted fall in production costs will make little difference to the end costs for consumers. It finds that green hydrogen could end up being even more expensive than Direct Air Capture in terms of dollars per tonne of CO2 avoided.
- Ammonia has been proposed as a route to decarbonising shipping, but it has a lot of hurdles to overcome before it is adopted more widely. The fuel, which can be produced from renewable electricity, is toxic and corrosive - there are over 400 risks associated with its use in shipping, mostly related to the process of refuelling. It's also up to four times more expensive than traditional fuels, in part because it has around half the energy density.

Orkhan Farmanli, Unsplash

From Zero Carbon Analytics

Ahead of COP29, we took a quick look at the financial outlook for oil producers in the Middle East and Central Asia, including this year's host Azerbaijan. Oil prices for next year are currently set to be well below the level needed for seven countries in the region to cover their planned spending - including Saudi Arabia and Azerbaijan. Despite this, nationally-owned oil and gas-producing companies in the region are forecast to spend USD 4.8 billion on exploration and USD 46 billion on investment in oil and gas production. This extra production is flowing into an already over-supplied market, further depressing prices, which in turn will make it harder for the companies to balance their government budgets.

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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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