The energy transition in oil and gas
December roundup

Hello readers,

Fossil fuel emissions once again hit record levels in 2024, with gas and oil leading the growth - increasing by 2.4% and 0.9% respectively. Peak fossil fuels remains elusive, though OPEC's ongoing reductions in its forecasts of oil demand – down 18% since July – shows that this all-important turning point may be getting closer.

As I highlighted in last month's newsletter, the industry is borrowing heavily to keep shareholders happy. Bloomberg's Javier Blas has taken a detailed look at Saudi Aramco's borrowing to cover its dividends. "In nine months, its position has moved from net cash of $27.4bn to net debt of $8.9bn. That means in 2024 Aramco has spent ~$130 million daily that it didn't have."

This month's edition looks at the likely impact of a Trump Presidency on oil and gas, TotalEnergies' surprise pledge to abandon fossil fuels completely (at some point) and accusations linking Exxon to the hacking of environmental organisations' emails.

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:

5 billion tonnes of CO2

Lifetime emissions from new oil and gas projects approved in 2024 by companies in the Oil and Gas Decarbonization Charter

Oil and gas in the transition

Trump's policies may not make the industry "drill, baby, drill"

Trump's election, and his nominations of an oil-industry executive and a pro-carbon capture, anti-renewables governor to his Cabinet, have been the focus of much of the news this month. Trump ran on a promise to "drill, baby, drill", and is expected to scrap pro-electric vehicle emissions standards, methane regulations and Biden's pause on new LNG terminals. Yet despite his pro-oil and gas agenda, these changes may not see a significant increase in oil and gas production. The industry has been under sustained pressure from investors to focus on financial returns and capital discipline over pure production volumes, which means that economics, rather than politics, are likely to drive the industry's appetite to expand production.

There are blockers on both price and costs. Oil prices are already falling, with Chinese demand stagnating and OPEC holding back significant supplies, leaving little market space for new supply. Meanwhile, Trump's plans to impose tariffs on Chinese steel could slow the construction of new LNG terminals by increasing the cost of construction. All told, analysts aren't expecting a flood of new US production. In fact, Trump's tariffs may have a bigger impact on production than his energy policies, with the potential to cut oil demand growth by a third – equivalent to USD 5-7 per barrel – while LNG exports could become a target for retaliatory tariffs. Whether those tariffs are just threats by Trump to score some early diplomatic wins or a genuine trade policy could have a decisive influence on the future of oil and gas over the next few years.

Exxon's public and private views on Trump policies

Exxon CEO Darren Woods has been surprisingly vocal this month, positioning the company as a champion of climate action in the face of a new Trump Presidency. He has come out saying that the

US should stay in the Paris climate agreement, backed the Inflation Reduction Act (IRA), and supported Biden's methane emission rules. None of these positions are new or selfless; Exxon supported the US staying in the Paris Agreement in 2017, benefits from subsidies from the IRA, and is likely to see methane reduction as essential to staying competitive when exporting to places like the EU.

While positioning itself as a climate champion, Exxon remains a leading member of the American Petroleum Industry (API), which is pushing a vehemently pro-oil and gas agenda. API's plan for government includes a major new offshore licensing round, repealing 50-year-old standards for vehicle fuel economy and ending Biden's methane fee regulations. Promoting their own green credentials while using industry associations to advance their policy agenda has been a longstanding play of major oil and gas companies.

Shell in court

It's been a busy month for Shell in court this month. In the UK, the company has acknowledged that the UK government made an error in granting licences for the Rosebank and Jackdaw projects, the latter of which it is developing. While acknowledging the result of the Supreme Court's previous ruling that the emissions from the use of oil and gas, not just their extraction, must be assessed, Shell will argue that the project should go ahead as its development is already underway.

In the Netherlands, Shell won its appeal against a landmark decision that would have required the company to reduce its emissions, including from the oil and gas it sells, by 45% by 2030. The court backed Shell's arguments that there was insufficient scientific evidence on the emission reductions an individual company should make, and that placing a requirement on one company would be ineffective as others would step in to meet demand for fossil fuels. While the ruling is a major setback for efforts to hold fossil fuel companies accountable in the courts, legal experts highlighted significant important principles recognised in the judgement. Analysts found that courts could, in principle, impose absolute emissions reductions on companies, that companies are responsible for their human rights impacts, and that Shell's expansion of oil and gas projects "may be at odds" with a reasonable expectation for it to take into account the negative impacts of more fossil fuel production.

Canada to cap oil and gas (production) emissions

After extensive consultation, the Canadian government has proposed a cap on emissions from the extraction of oil and gas – aiming for a 27% cut between 2026 and 2030. The government expects that these cuts can be achieved through tackling methane leakage and the deployment of carbon capture and storage (CCS), with the industry still forecast to grow production by 16% between 2019 and 2030-2032. The oil and gas industry, which often highlights how emissions can be cut by tackling methane leaks and CCS, has strongly opposed the emissions cap, saying that it will stymie production and increase energy prices.


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Energy transition strategies

Once again, Carbon Tracker's assessment of the 30 largest oil and gas producers found that not one has set targets that are aligned with the Paris climate agreement. "Progress has basically stalled," said the report's co-author.

TotalEnergies has made the surprising claim that it is committed to abandoning fossil fuels entirely in the long term. The company did not specify a timeframe for achieving its supposed exit from fossil fuels, and continues to develop new oil and gas extraction projects. The ambition, which is not part of the company's official energy transition strategy, was announced as part of its defence of a greenwashing case brought against it in South Africa. In August, the country's advertising watchdog found that TotalEnergies' claims that it was "committed to sustainable development" in a campaign with the country's national parks were "misleading".

Shell is looking to offload its nature-based carbon offsetting business, unnamed sources told Bloomberg. Shell has bought huge quantities of nature-based offsets in recent years (and has been found to have repeatedly misled the public over the benefits of those offsets), and has set itself up as a major trader. However, recent investigations exposing the poor quality and lack of positive impact of offsets has led to prices collapsing by two-thirds over the past year. The decision to sell the business fits with CEO Wael Sawan's strategy of re-focusing on Shell's core oil and gas operations.

Meanwhile, Exxon has been accused of attacking the credibility of its opponents, according to a Reuters report. The FBI is investigating an Exxon-contracted consultant over the hacking and leaking of environmental organisations' emails, three sources told the news outlet. The alleged hacking started in 2015 as NGOs and US states began raising the prospect of legal action against Exxon over revelations that the company had known about the impacts of climate change for decades. The company allegedly used hacked documents in its defence in multiple court cases in the US. Exxon has denied any involvement in the allegations, calling them "conspiracy theories".

Clean energy investments

Equinor has cut the workforce of its renewables division by 20% after exiting its offshore wind activities in Vietnam, Spain, Portugal and France earlier this year. The company has said it will also bid for fewer projects in future. Despite these changes, Equinor has kept its previous renewables target for 2030, though this may change in its annual market update in February.

It's been clear for the last couple of years that oil majors are increasingly backtracking on their previous shifts toward renewables and are re-focusing on their core hydrocarbon businesses. One fundamental driver of this change is the financial returns. According to an analysis by S&P, the median return on capital invested for major oil and gas companies was 11% last year, while for renewable companies it was just 2%. For CEOs focused on next quarter's results, that difference in returns may well feel a lot more pressing than the long-term risks of collapsing oil and gas demand.

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Hydrogen

Hydrogen is often pitched as a climate solution, but - like gas - it also has a leakage problem which can contribute to global warming. This summary from the Oxford Institute for Energy Studies digs into the details of the problem - that hydrogen, while not a greenhouse gas, increases the warming from methane in the atmosphere. As ever, the differences between green and blue hydrogen, and leakage rates, make a massive difference. In the worst-case scenario, using blue hydrogen made from natural gas with CCS that has high hydrogen and methane leakage rates, its initial climate impact could be up to 60% worse than the fossil fuel technologies it is intended to replace. In the best-case scenario, with hydrogen produced from renewable energy sources and a well-controlled supply chain that minimises hydrogen leakage, the climate impact would be nearly eliminated.

Carbon Capture and Storage

BP, the Japanese government, Mitsubishi and Mitsui have given the go-ahead to a USD 7 billion expansion of a gas extraction and LNG export facility in Indonesia. The project intends to use CCS to remove CO2 from the gas, which will then be re-injected back into the underground gas reserves to increase the volume that can be recovered - a process called “enhanced gas recovery”. Removing the CO2 from the extracted gas has no impact on the emissions from the eventual end use of the gas. The project will be BP’s first CCS project.

The Global CCS Institute’s annual report, published in October this year, is always a trove of useful information on CCS. Researcher Ketan Joshi has taken a deep dive into the CCS institute's reports, showing how the expected growth in CCS has continually failed to arrive. He shows how wildly unrealistic oil and gas companies’ forecasts and scenarios for CCS deployment are.


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From Zero Carbon Analytics

Together with Oil Change International, we published an assessment of how companies that joined the industry-led ‘Oil and Gas Decarbonization Charter’ at COP28 in 2023 were faring. Our analysis found that despite their pledged commitment to the Paris goals, the Charter’s member companies approved 68 new oil and gas fields and field expansions in 2024, which when extracted and burned will cause nearly 5 billion metric tonnes of CO2. Charter member companies are projected to increase oil and gas production by 17% by 2030, whereas global oil and gas production must decline by close to 20% by 2030 to be aligned with the International Energy Agency’s 1.5ºC energy pathway.

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
Rue aux Laines, 70 - 1000, Brussels, Belgium