# The energy transition in oil and gas

## February roundup

Hello readers,

I promise that this newsletter won't forever be focused on the US, but for now I'm afraid Trump's policies are still dominating news coverage of the oil and gas industry. This month, we're looking at his latest moves, including the potential repeal of the lynchpin of US climate regulation, as well as whether steel tariffs will hurt the sector.

The other big news this month has been that BP and Equinor have joined Shell in reversing their shift to renewables and are refocusing on their core oil and gas businesses. Given their relatively small renewable investments, the shift won't make a huge difference to the overall roll out of renewables. Interestingly, the fossil fuel industry's favoured emissions reduction technologies - carbon capture and storage (CCS) and hydrogen - seem to be falling out of favour with investors. While overall investment in the energy transition rose by 11% last year, according to BloombergNEF, investment in CCS dropped by 50%, and investment in hydrogen fell by 42%.

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Thanks,
Murray

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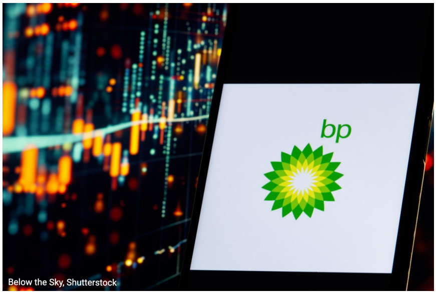
Stat of the month:

70%

*BP's planned cut in renewable energy expenditure*



Below the Sky, Shutterstock

# Oil and gas in the transition

**US domestic climate regulation rollback**

The Environmental Protection Agency (EPA)'s new administrator Lee Zeldin reportedly urged the White House to remove the centrepiece of US domestic climate regulation. The so-called "endangerment finding" ruled that greenhouse gases pose a threat to public health and welfare, allowing the federal government to regulate emissions - including from cars and power plants. A repeal of that finding would open the door to removing federal regulation of those emissions, with potentially huge consequences.

The new Republican-controlled Congress also swung into action to remove climate regulations, with the House and Senate voting to repeal a landmark Biden policy requiring oil and gas companies to pay a fine for their methane emissions. Expect the bonfire of regulations to continue.

**Trump's investment pitch to East Asia**

President Trump has been heavily promoting the proposed Alaska LNG project to governments in Asia, with Japan, South Korea, Taiwan and others reportedly expressing interest in investing. The US' agenda towards Asia is clear: "If the Trump administration were to have its way, U.S. LNG would flow in massive quantities […] so that Southeast Asia would become economically dependent on the United States. It's redrawing the map of energy dependence," Kenneth Weinstein, Japan chair at conservative think tank Hudson Institute, told Reuters.

However, it remains to be seen whether Asian countries' pledges of interest in the Alaska project are genuine investment plans or simply a diplomatic gesture to warm relations with the US. The project is not without its challenges, including the construction of an 800-mile pipeline across harsh Arctic terrain, expected high operating costs and the risk of regulatory changes if the Democrats were to return to the White House. If it goes ahead, the Alaska LNG project would be one of the largest energy investments in US history.

**US steel tariffs hit oil and gas industry**

Steel import tariffs of 25% are set to significantly increase costs for the oil and gas industry, with the potential to undermine Trump's goal to increase domestic production. According to Rystad Energy, US shale and offshore oil and gas projects are most likely to see cost rises in the region of 5-10%, a significant increase in the context of relatively low oil prices and tight margins. Tariffs would also hit the planned expansion of LNG export facilities; "the biggest worry that keeps LNG developers awake at night, especially in the US, is the price of steel" according to an LNG lead specialist at Calypso Commodities. Unsurprisingly, the American Petroleum Industry (API) is pushing back on the tariffs: "Unleashing American energy requires access to materials not readily available in the US," said Dustin Meyer, API's senior vice-president of policy, economics and regulatory affairs. "We are committed to working with the Trump administration on approaches that avoid unintended consequences."

**Trump's international reach**

The Trump administration's decisions are having direct impacts on the industry beyond US borders. The US' threat on tariffs on Canadian oil exports has led to calls in Canada for the construction of new oil pipelines to the coast, to allow it to shift its reliance on exporting to the US. One major problem with this plan is that no companies have come forward with an interest in taking the hugely risky, costly project that could take a decade to complete.

The US has also cancelled Chevron's oil licence in Venezuela, which was granted by the Biden administration to allow the company to operate in the otherwise sanctioned country. The cancellation is aimed at pressuring Venezuelan President Maduro into holding democratic elections and could nearly halve the country's oil output, according to Rystad Energy.

**China's peak oil?**

China may have already passed its peak demand for oil, driven by the huge uptake in electric vehicles (EVs) and the expansion of public transport - particularly high speed rail. The International Energy Agency said "For China's fuel growth trajectory to be leveling off at this early stage of development is without historical precedent." EVs now make up half of all car sales in China.


Ricky Esquivel, Pexels

# Energy transition strategies

### BP

BP has announced a fundamental reset of its corporate strategy, announcing a 20% increase in oil and gas spending, while cutting expenditure on renewables by 70%. The move came after the activist investor Elliot Management built up a 5% stake in the company, making it the third largest shareholder, with the intention of pushing for significant changes in the company. BP's share price has fallen relative to other oil and gas companies, raising speculation that it could be at risk of a corporate takeover.

BP's CEO Murray Auchincloss announced the company was ditching the strategy set by the previous CEO Bernard Looney, including the commitment to increase renewable generation 20 fold by 2030. He said that he believed that "our optimism for a fast transition was misplaced and we went too far, too fast" and that he forecast that there would be "tremendous amounts of demand" for oil and gas beyond 2050.

The immediate response was not what Auchincloss would have hoped for. Shares fell by 2.3% after BP published the announcement and Elliot Management was reported to believe the changes didn't go far enough. The company has also been criticised for planning to cut share buybacks by 60%, which will hurt investors, while basing its financial assumptions on unrealistically high oil and gas prices.

BP's management is now setting off on a series of meetings in the UK and US to sell the new strategy to investors, as well as likely facing down calls from some investors for a vote on the change in strategy at this year's AGM.

Two great quotes sum up the response:

*The FT's editorial board: "If all the big international oil and gas producers, and national oil companies such as Saudi Aramco, concentrate mainly on fossil fuels and demand declines, only some will survive. Higher-cost producers, such as BP, may not be among them."*

*Reuters' Energy Columnist Ron Bousso: "While BP and its rivals may be able to temporarily walk back from their green goals, they will not be able to sidestep the energy transition for long. Investors will expect these companies to offer viable long-term strategies, because while BP is facing an existential crisis, the energy transition is not."*

### Equinor

Equinor is heading in a similar direction to BP, having committed earlier in February to halve investment in renewable energy and increase oil and gas production by 10% above its previous target. As is now standard across the industry, CEO Anders Opedal said that reducing clean investment and increasing fossil fuel production does not affect Equinor's commitment to net zero by 2050, although he acknowledged that drilling more now would make it harder in later years.

### Eni

Eni however is sticking with its energy transition strategy, pledging to increase its renewables capacity four-fold by 2030 and create new businesses focused on carbon capture and storage as well as "carbon neutral data centre capacity". The data centre capacity will likely be based on selling the spare capacity of its giant EUR 100 million supercomputer, the fifth most powerful in the world, which primarily analyses data on oil and gas reserves. Eni's CEO Claudio Descalzi summed it up in a remarkably sensible quote on the energy transition "at the end of the day, the returns on capital is comparable, but you have to consider the transition businesses are less risky than upstream investment".

**Shell**

Friends of the Earth will appeal a 2024 ruling that overturned the court-imposed emissions reduction requirement for Shell. The legal saga, which in 2021 saw Shell ordered to reduce emissions by 45% by 2030, is now set to head to the Dutch Supreme Court. The NGO wants the top court to impose a specific emissions reduction target on the company. The court ruling is expected in 2026.

While its legal battles continue, Shell has been talking up the prospects for the future of its products, claiming in its annual LNG outlook that demand for the fuel will rise by 60% by 2040. Its analysis is questionable. Shell claims that European LNG demand will rise up to 2030, when European energy regulators say this would only happen if the EU fails to meet its REPowerEU goals - and a far more likely scenario is for LNG demand to slowly and consistently decline from 2025 onwards.

Shell also proposed developing synthetic LNG, made by combining green hydrogen (made from renewables) with carbon dioxide captured from the atmosphere - which would in theory create a 'net zero' form of natural gas. The plans were described by analysts as "wishful thinking" with "absurd levels of expense" that aim to "prolong the life of LNG infrastructure when demand for fossil LNG has gone down".

**ADNOC**

The UAE's ADNOC is continuing its push into petrochemicals, eyeing a deal that would make it the joint owner of a USD 30 billion chemicals and plastics company. The deal comes after shareholders approved ADNOC's USD 15 billion takeover of Germany chemicals company Covestro in December 2024.

# Clean energy investments

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A decision by the EU on fines for airlines' failure to meet emissions targets could be crucial to the future development of Sustainable Aviation Fuel (SAF). SAF is a broad range of air fuels not made from fossil fuels, the vast majority of which are made from organic material, including crops or used cooking oil. SAF currently costs at least two to three times more than oil-based jet fuel and airlines are unwilling to commit to long-term contracts to buy the fuel. Without those long term contracts, oil and gas companies and refiners are unwilling to invest in expanding production - which currently produces below 1% of total aviation fuel demand. The EU fines will dictate the economic viability of airlines purchasing SAF, given the potential penalties for failing to meet the EU's emissions reduction goals.


## Hydrogen & ammonia

In yet another blow to the development of green hydrogen (made from renewable electricity), the Spanish oil and gas company Repsol has cut its 2030 target for production of the fuel by up to 63%. The company cited the lack of development of the market and government regulations for the decision.

Germany's state-owned energy company Securing Energy For Europe (SEFE) is accelerating its efforts to build an international supply chain for the import of green hydrogen, through an agreement with Saudi Arabia's ACWA power for the delivery of 200,000 tonnes a year by 2030. The company, formerly Gazprom Germania before its nationalisation, also recently signed a deal for a similar level of imports of green hydrogen from Brazil. Additionally, it is investing in converting gas grids and infrastructure in Germany to enable the transport and storage of hydrogen. However, the technology for large scale shipping of hydrogen is unproven, and the fundamental physics involved make it prohibitively inefficient and costly.

## Carbon Capture and Storage (CCS)

The future of further UK government funding for CCS projects is in doubt as the Treasury looks to find savings in government spending, sources briefed on the process told the Financial Times. Last October the UK announced more than GBP 20 billion in funding over 25 years for CCS projects in two regions of the UK. This was expected to be the first phase of support for CCS projects, with further projects in development elsewhere in the country, though funding is now in doubt. A committee of UK MPs found that the government's support for an "unproven, first-of-a-kind technology to reach net zero is high risk" and "have a very significant effect on consumers and industry's electricity bills".

The CCS project backed by Canada's largest tar sands oil producers, the Pathways Alliance, is not viable without ongoing subsidies from the government, according to an analysis by the Institute for Energy Economics and Financial Analysis (IEEFA). Its analysis found that the project is reliant on emissions credits, the value of which are at risk due to a forecast oversupply. While revenue from the project could be "stagnant", operating costs will likely increase, meaning that "the cost per tonne of $CO_2$ captured is likely to exceed the revenue that the project can generate for each tonne captured."



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.



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