
The energy transition in oil and gas

January roundup

Hello readers,

Once again, the US is dominating the news agenda on oil and gas, with President Trump wasting no time in implementing his sweeping shift away from Biden's energy policies towards support for oil and gas. There may be some connection between this set of policies and the [nearly half billion dollars spent by the oil and gas industry in the last election cycle](#), according to an analysis by Climate Power. Oil and gas companies could still find themselves with major problems in the US after the latest Supreme Court decision allowed state cases seeking to hold them accountable for their role in contributing to climate change to progress.

Beyond America, the latest data raises the prospect of peak oil demand in China, while Saudi Aramco is looking to diversify into lithium production. This year could also see major milestones in carbon capture and storage (CCS), with a record number of projects aiming to reach an investment decision in 2025, record growth forecast for operating capacity and the first seaborne shipments of captured carbon dioxide.

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Thanks,
Murray

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Stat of the month:

2%

Fall in Chinese oil imports in 2024, the first decline in two decades, except for during the pandemic.



Oil and gas in the transition

White House policies on oil and gas

In his final week as President, [Joe Biden banned new oil and gas drilling along most of the US coastline](#). The order does not affect areas in the Gulf of Mexico that are the mainstay of current US offshore production, but does cover huge swathes of the East and West coasts, as well as parts of the coast of Alaska and the Gulf of Mexico. The measure is seen as largely symbolic as there are few active prospects for production in the region. Legal experts state that the action cannot be undone directly by Trump, instead requiring an act of Congress. That hasn't stopped Trump signing an executive order, [reversing Biden's decision](#).

Trump wasted no time in [implementing his dramatic shift in energy policy](#). His [executive orders](#) included withdrawing from the Paris Agreement, declaring a national energy emergency, [lifting the freeze on LNG export approvals](#) and [repealing restrictions on drilling in the Alaskan Arctic wildlife refuge](#). Internationally, he has called on [the EU to buy more US oil and gas](#) to avoid tariffs and on [Opec to lower global oil prices](#). His officials have also swung into action, with the acting head of [the Environmental Protection Agency dismissing all outside advisers on science and clean air](#) from its advisory board.

Trump can't make the industry drill

Despite all this, it is far from certain that Trump's actions will lead to significantly more, or much cheaper, oil. US producers are under pressure from investors to turn a profit, not just produce more oil. Increasing production only makes sense if prices are higher. [If Trump succeeds in lowering prices, the incentive to "drill, baby, drill" disappears](#). To lead to a significant increase in drilling, [oil prices would need to reach USD 84 a barrel](#). They are currently USD 74 today, and are forecast to

fall to USD 64 this year. Half of major producers operating in the Permian Basin are planning to cut their investments this year. The industry is also [not rushing into Alaska](#), fearing that Trump's decision could be reversed again in four years' time.

One area where the industry doesn't agree with Trump's agenda is on leaving the Paris Agreement. US energy companies would "[prefer that the U.S. government remain engaged in the UN climate process](#)", according to a representative from the Global Energy Institute at the US Chamber of Commerce. A cynical take might be that they will miss having a close ally and powerful representative of their interests taking a seat at the world's climate talks.

Cases against fossil fuel companies progress through the US courts

In a major development, [climate litigation in the US](#) seeking to hold fossil fuel companies accountable, the [US Supreme Court has stated that it will not hear an appeal from oil and gas companies](#) about a case in Hawaii. The ruling is significant as it means the case in question, and other similar cases, can now progress at the state level. The oil and gas companies had [sought to have the case heard in Federal court](#), where they hoped to get a more favourable outcome. As well as solving the jurisdictional dispute, the decision also removes a legal question that had been preventing the cases from progressing.

Despite this progress at the Federal level, [a New York judge dismissed the City's case against oil and gas companies](#). The judge ruled that the city could not argue that its residents were sensitive to the causes of climate change and were also misled by oil and gas companies about the impact of their products. The judge also stated that the industry's adverts were too vague to constitute greenwashing. New York City's lawyers are considering their options after the ruling. New York state passed a law in December through which it will [fine fossil fuel companies USD 75 billion over the next 25 years](#) to pay for damages caused by climate change. This too is [set to head to the courts](#).

In the wake of the Palisades Fires in Los Angeles, new legislation has been proposed in California that would allow [victims of climate-driven fires, and insurance companies, to sue the oil industry for their losses](#). The proposal is based on the principle of an existing law that makes utility companies liable for damages if their equipment starts a wildfire. The law could also be critical in ensuring the viability of the state-backed insurer of last resort, which could become insolvent due to the scale of damage. A major oil and industry lobby has already pledged to oppose the proposed bill becoming law.

New UK oil and gas fields unlawful

A court in the UK has found that the government's decisions to permit [two new oil and gas fields in the North Sea - Rosebank and Jackdaw - were unlawful](#) as they did not consider the emissions that would be created from the use of the oil and gas extracted. Crucially, [the court ruled that the projects cannot go ahead without new consent](#) from the government. Shell and Equinor argued that while the permissions were unlawful, the projects should nonetheless proceed due to their investments to date. The UK government has consulted on new project assessment criteria, which include emissions from the fuels extracted, but the new rules have not yet been introduced. It is still potentially possible that the projects could be approved by the government once the new rules are in place. Shell's CEO stated that they would be willing to appeal the case all the way to the UK Supreme Court to secure permission to continue the project.

Peak oil in China?

The prospect of peak oil demand in China could be a game changer for the entire global oil and gas industry. In 2024, [Chinese oil imports fell by 2%, the first decline in two decades](#). Sinopec, China's biggest refiner, revised its forecast for crude oil consumption to peak in 2027, up to three years earlier than previous expectations. Even [the growth in gas demand is slowing](#), expected to rise by some 6%, compared to 9% last year. The size of China's impact on global markets is hard to overstate: over the past three decades, China has accounted for half of all growth in the world's oil demand.

The huge growth in electric vehicle sales, and more switching from diesel to gas for lorries, has played a massive role in curbing demand growth. In the future, the IEA told news sources it expects ["essentially all"](#) of China's oil demand growth to come from [petrochemicals](#). In an interesting twist, the IEA notes that about a quarter of China's increase in petrochemical demand over the past five years has come from wind turbines and solar panels.

More political battles over the IEA's forecasts

The IEA has, once again, come under fire for its focus on the energy transition, with a report from the agency's former lead oil market analyst. [The report claims that the IEA's forecasts for peaking oil demand are flawed](#), underestimating demand growth in emerging economies and petrochemicals, and overstating the expansion of electric vehicles. However, I would question the impartiality of an analysis launched at an event with a US Republican Congressman who has been critical of the IEA and the CEO of an oil and gas lobby group. The IEA said the report was "full of rudimentary errors" and "fundamental misrepresentations about both energy systems in general and IEA modelling in particular".



Energy transition strategies

[Saudi Aramco is set to expand its investments in lithium production](#) as Saudi Arabia seeks to diversify its economy away from its overwhelming reliance on oil and gas. Lithium demand is set to

increase significantly due to its use in batteries and electric vehicles, though prices have slumped in recent years due to huge growth in production capacity in China. Aramco is researching the possibility of producing lithium from oilfield wastes, though the state acknowledges that the project is [“promising, but not yet commercially viable”](#).

New analysis has revealed [the overwhelming extent of Shell's reliance on carbon credits](#) as part of its energy transition and emission reduction strategies. In 2024, Shell used nearly 15 million tonnes worth of carbon credits, more than double Eni, the next-biggest user. The fossil fuel sector accounted for over 40% of carbon credits used last year, three times more than any other sector.

TotalEnergies LNG expansion plans face significant challenges after [further delays to its much troubled USD 20 billion proposed LNG terminal in Mozambique](#). The project was launched in 2020, but paused in 2021 after an insurgency in the region. The company had repeatedly set a goal of restarting the project before the end of 2024, a deadline it has now missed. The project's financing is also now in doubt, as promised US support was put on hold when the project was frozen, and the UK has ended its international financing for fossil fuels. Attempts by TotalEnergies to convince the Biden administration to unblock close to USD 5 billion in loans that had previously been committed, a quarter of the total project cost, were [not successful](#).

Hydrogen and ammonia

Analysts at Wood Mackenzie have set out their [top things to watch for hydrogen and ammonia this year](#), which include:

- Blue hydrogen – made from gas with CCS – capacity reaching final investment decisions in the US this year is forecast to be 10x greater than that for green hydrogen – made from renewable energy.
- At least one gigawatt-scale green hydrogen project is expected to be approved in 2025. Likely projects are in Asia, the Middle East or Latin America, with no gigawatt-scale green hydrogen projects in Europe, the US or Australia expecting to get the go-ahead this year.
- 45% of the hydrogen to be produced in projects now in development don't yet have a buyer – indicating that supply may be exceeding demand.



Evgeny, Adobe

Carbon Capture and Storage (CCS)

Wood Mackenzie also has a useful set of [forecasts for CCS this year](#), which includes:

- A record number of CCS projects are expected to reach final investment decisions this year, including in Canada, the US, Timor Leste, Australia and the UK.
- Operational CCS capacity could increase by more than a quarter, the largest annual increase to date.
- The world's largest Direct Air Capture (DAC) project is due to start operating in the US.
- 2025 is expected to see the first shipping of CO₂ by sea and the first cross-boarder shipment, both in projects for carbon storage in Norway.
- New rounds of government subsidies will be coming, including USD 3.5 billion for Bioenergy with Carbon Capture and Storage (BECCS) projects from the Swedish government and USD 4.2 billion from the Danish government for CCS projects.

In other CCS news, [Equinor has retracted a claim that its flagship Sleipner project captures around 1 million tonnes of CO₂ a year](#). Analysis of official figures shows its actual capture rate was around a tenth of that level in 2023 when it captured just 106,000 tonnes of CO₂ Since its launch in 1996, the project has only captured 1 million tonnes a year once, in 2001.



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From Zero Carbon Analytics

At the start of the year, the Guardian ran an exclusive story on our findings that [ports handling 98% of Saudi Arabia's oil exports are at risk from 1 metre of sea level rise](#). According to scientists at the International Cryosphere Climate Initiative, 1 metre of sea level rise is now inevitable within around a century, and could come as early as 2070 if ice sheets collapse and emissions are not curbed.

Ahead of Trump's inauguration – and his promise to unleash US gas exports – we published a pair of briefings on LNG, showing:

- US LNG capacity already under construction is over four times greater than the amount the EU imported from Russia in 2024. [No additional LNG capacity would be needed for the EU to replace Russian LNG](#).
- [Rising imports of LNG have coincided with higher gas price volatility in Europe](#). In the last five years, the changes in European gas prices have been double the historical average.

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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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