The energy transition in oil and gas

April roundup

Hello readers,

First, a brief reminder from this month's news on why the future of this industry is so important. 2024 saw 151 'unprecedented' extreme weather events. Half of the increase in global emissions from energy last year was due to it being the hottest year on record. The disastrous loop of hotter temperatures drove more demand for electricity for cooling, driving emissions ever higher. Half of the world's carbon emissions in 2023 came from just 36 fossil fuel companies.

One nugget of good news that I'd missed is that sales of combustion engine cars peaked way back in 2018, and sales have fallen by nearly a quarter since then.

More positive news this month came from China, where demand for oil and gas is well below expectations, and from the UK, which is advancing its commitment to end exploration of new oil and gas fields. On the corporate side, BP's still facing pressure - both for not moving further away from renewables as well as from investors unhappy with its return to its core oil and gas business. Shell has doubled down on its strategy, focusing on returning money to shareholders rather than growing its business.

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:

40%

Percent of Shell's shares the company intends to buy before 2030

Marc Rentschler, Unsplash

Oil and gas in the transition

China's weakening demand for oil and gas

Some surprisingly good news on oil and gas from China this month. The country's total consumption of crude oil dropped by 1.2% last year, with Chinese crude imports in 2024 dropping for the third time this decade. Demand for diesel peaked in 2019 and petrol consumption likely peaked in 2023 - with petrol sales dropping 9% year-on-year in 2024. The Chinese government is pushing refiners to reduce fuel output and focus on producing products for the petrochemical industry. If oil demand keeps falling, this could have a significant impact on global oil markets.

Chinese LNG imports are also now set to fall this year, with BloombergNEF revising down its forecast by more than 10%. Cheaper alternatives, such as coal and renewables, coupled with increased alternative supplies of gas domestically and from Russia have all pushed down demand for LNG imports. Many LNG exporters and traders have relied on the prospect of increasing Chinese demand for the fuel. If this decline continues, or even if demand remains stable - it could add to the expected glut of LNG later this decade and put pressure on the finances of LNG exporters. The state-run importer of Pakistan, another Asian country previously thought of as a key driver of LNG demand, is asking suppliers to divert scheduled shipments due to a lack of demand. Asian gas demand might not be all the industry hoped it would be.

US oil and gas, from "drill, baby, drill" to "nil, baby, nil"?

There's been lots of coverage over the last month of the challenges faced by US oil and gas drillers due to the Trump administration's policies. US Energy Secretary Chris Wright has been adamant that the sector can boost oil production even if prices go as low as USD 50 per barrel, the price floated by one of Trump's leading trade advisers as being key to reducing inflation. No one else seems convinced, as Daniel Yergin, a Pulitzer Prize-winning energy historian told the FT, "at $50 a barrel the economics of shale don't work".

Oil executives were damning of Trump's policies in their responses to the (anonymous) Dallas Federal Reserve survey; "the administration's chaos is a disaster for the commodity markets", "'drill, baby, drill' is nothing short of a myth and populist rallying cry," and "the threat of $50 oil prices by the administration has caused our firm to reduce its 2025 and 2026 capital expenditures" read some of the responses. Drillers reported that prices needed to be at least above USD 65 per barrel to make a profit, and more than 60% of companies expect Trump's steel tariffs to hurt oil and gas demand. Bloomberg described the executives' take on Trump's policies as 'Nil, Baby, Nil'.

As if the policy challenges weren't enough, drillers now face the prospect of having already drilled the most promising regions of the prolific Permian basin. US oil production is likely to peak before 2030 according to Oxy CEO Vicki Hollub, and as drillers focus on more marginal wells the costs of production are set to rise.

The U.S. Environmental Protection Agency (EPA) administrator Lee Zeldin announced that he was "driving a dagger through the heart of climate-change religion" in the "most consequential day of deregulation in American history". The EPA is planning to roll back regulations across the board - including power plant pollution and car and truck emissions. The agency also wants to rewrite the finding that climate change endangers public health and welfare, which underpins huge amounts of climate regulation in the US. Expect a long road ahead for these rules which are likely to face extensive legal challenges. As David Doniger, a climate expert at the Natural Resources Defense Council, told AP: "In the face of overwhelming science, it's impossible to think that the EPA could develop a contradictory finding that would stand up in court."

One stunning fact from the US - 'marginal wells' make up 77% of active oil and gas wells in the US, produce less than 6% of the country's oil and gas, and are estimated to account for 40 to 60% of the industry's emissions from operations. These marginal wells keep operating because they benefit from a multibillion dollar federal tax break. Madness.

2.3 trillion in stranded assets

A new study found that if governments meet their climate targets, this would result in USD 2.3 trillion worth of fossil fuel assets becoming "stranded" - economically unviable before the end of their operating life. Even if governments take no further action on climate change - an extremely unlikely scenario - global stranded assets would still amount to USD 872 billion.

Tanzania to launch new licensing round

Tanzania is launching its first oil and gas licensing round for over a decade, largely focused on new prospects in the Indian Ocean. A final deal on the country's long-delayed proposed LNG terminal is reportedly also due soon, but given how long negotiations have taken so far, I'm not holding my breath.

UK proposes no 'new' fields, but not the end of drilling

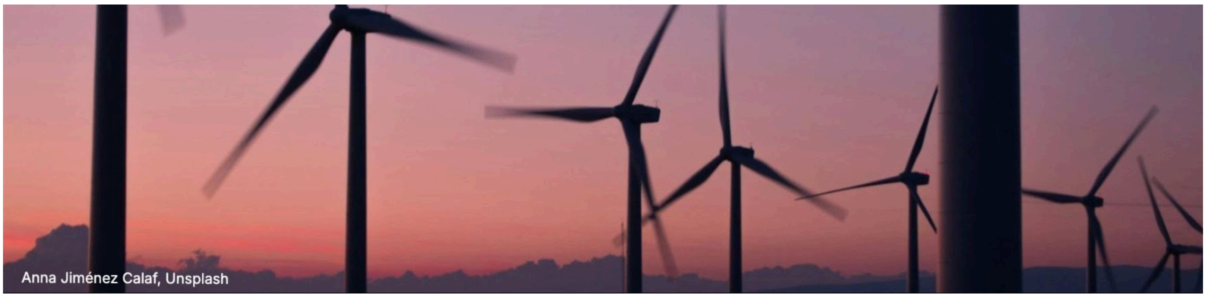
The UK government has confirmed its manifesto pledge not to issue new licences to explore new oil and gas fields. The proposals, which were set out in a consultation and have not yet become government policy, appear to allow room for some new drilling to continue - either within existing licenced areas, or through 'tie-backs' where new projects link into existing infrastructure.

US backs Mozambique LNG

The US Export-Import Bank (Exim) has re-approved a USD 4.7 billion loan for TotalEnergies' proposed LNG terminal in Mozambique. The loan was originally agreed in 2020, before the project was paused after an outbreak of violence in the region. The US decision will now likely put pressure on the UK and the Netherlands, which had previously approved loans to the project but have since committed to stop providing international finance for fossil fuel projects.

World's second biggest LNG exporter set to import LNG

Australia, which remains the world's second largest LNG exporter, is facing the 'almost inevitable' prospect of having to import LNG. The country's gas reserves and export terminals are located in the west and north, while the centres of demand are in the south east. Without domestic pipelines to connect the two, the country is set to join the ranks of countries competing to buy gas.


Anna Jiménez Calaf, Unsplash

Energy transition strategies

Shell is buying itself

In what Shell announced as an acceleration of its current strategy, the company promised to cut costs, reduce spending and return more money to shareholders. Shell said it would increase the share of cash flow going to shareholders to 40-50% from 30-40%, cut planned spending by around 10%, and find another USD 3 billion-4 billion in cost savings. The sheer scale of Shell's planned share buy backs is remarkable. The company has already bought a fifth of its own shares since 2023, and by 2030 it will have bought 40% of its remaining shares. Asked by the FT if Shell was in danger of liquidating itself by buying so many of its own shares, CEO Wael Sawan said he was comfortable with a much smaller number of investors. The big question is whether Shell can grow, or even sustain itself, with such limited investment. Am I being too optimistic to hope that Shell might be shifting away from growth and instead prioritising returning money to shareholders?

BP's troubles aren't over

BP's shift away from renewables has reportedly not satisfied the activist investor widely cited as the driving force behind the company's change in approach. According to The Times, Elliott Management believes that the changes have not gone far enough and wants the company to completely divest, rather than scale back, its wind and solar businesses. BP's chairman Helge Lund is facing a tough AGM where he faces re-election by investors, with both investors in favour of a focus on oil and gas, and those vehemently opposed to BP's recent shift away from renewables, seeking to oust him.

Equinor 'failed to align with Paris Agreement'

In an all-too-rare example of corporate failure on climate action leading to divestment, one of the asset managers co-leading climate talks with Equinor on behalf of investors has sold its shares in the company. Sarasin & Partners led talks with the firm on behalf of more than 600 investors in the Climate Action 100+ initiative. The asset manager said that Equinor had failed to align its strategy with the Paris Agreement by lobbying to expand oil and gas production and cutting its renewable energy target. Sarasin had been one of the top 20 investors in Equinor prior to its decision to divest.

Clean energy investments

BP is putting half of its solar business, Lightsource bp, up for sale as part of an effort to reduce debt and make the company more attractive to investors. The move comes less than six months after BP took full ownership of the company in October 2024, buying just over half the remaining shares for GBP 400 million and taking on GBP 2.2 billion in debt. The bidding is expected to take place in the second quarter.

Jan van der Wolf, Pexels

Hydrogen & ammonia

German utility RWE and French energy company TotalEnergies have signed what is reported to be the largest contract for green hydrogen from an electrolyser in Germany. The 15-year agreement will see TotalEnergies buy 30,000 tonnes of green hydrogen for use in its refinery in Germany. Oil refining is one of the most significant uses of hydrogen - which is currently made from natural gas and has a substantial carbon footprint. TotalEnergies aims to replace the 500,000 tonnes of hydrogen it uses in its refining processes in Europe, which is currently produced from fossil fuels, with green hydrogen by 2030. This plan includes shipping green ammonia from Saudi Arabia, and the company is reportedly considering importing hydrogen from a project under development in Brazil.

Jakub Pabis, Pexels

Carbon Capture and Storage (CCS)

Shell, Equinor and TotalEnergies will invest USD 714 million in expanding the Northern Lights CCS facility in Western Norway. The deal will expand the CCS project from its current capacity of 1.5 million tonnes of carbon dioxide per year to 5 million tonnes. The investment includes a grant of about USD 141 million from the European Commission.

In a sign of some of the challenges the industry faces, a USD 8.9 billion carbon capture pipeline proposed for the US Midwest has been cancelled after a new law in South Dakota banned the use of eminent domain for carbon capture projects. Eminent domain allows the government to seize private property with compensation. The pipeline would have carried carbon dioxide from bioethanal plants across five states to be permanently stored in North Dakota.

We can, however, rest easy knowing that Saudi Aramco has launched a test Direct Air Capture (DAC) facility which can capture 12 tons of carbon dioxide per year from the atmosphere. It is intended to pave the way for a larger project that would capture 1,250 tons of carbon dioxide per year. Given that the test facility captures a whopping 0.000001% of Saudi Aramco's estimated 1.6 billion tonnes of carbon dioxide emissions from the oil and gas it sells, calling it a drop in the ocean may be too kind.

AP, Pexels

From Zero Carbon Analytics:

- To date, 68 lawsuits have been filed seeking financial redress for the impacts of climate change, of which 43 are still ongoing. The fossil fuel industry has been the target of 54% of these cases - according to our latest analysis of court cases.
- Carbon offsets are frequently used by fossil fuel companies to claim emissions reductions. Our briefing shows that offsets do not deliver net emissions reductions and their use is not aligned with achieving the temperature goals of the Paris Agreement.

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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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