

The energy transition in oil and gas

April roundup

Hello readers,

The global economy would be USD 28 trillion better off were it not for the extreme heat caused by the emissions of the world's largest fossil fuel companies. That's the remarkable headline finding of a [recent study in Nature](#), which used extensive climate modelling to determine the exact contribution of some of the world's largest fossil fuel companies to average temperatures, extreme heat, and the economic costs of these. Saudi Aramco, Gazprom, Chevron, Exxon and BP have each caused USD 1.45 to USD 2.05 trillion in economic damage. And that's actual GDP lost just from extreme heat experienced between 1991 and 2020, never mind the additional costs resulting from other climate impacts, or the huge economic and human toll future warming will bring. As the study says, "[science \[is\] no longer an obstacle to the justiciability of climate liability claims](#)" - in other words, data is now fully capable of supporting climate liability claims in court. Investors should be taking a close look at how companies are (not) accounting for these enormous risks.

This month's newsletter takes a look at why oil prices are tumbling and what this might mean for the US, the possible impact of China's domestic oil and gas production boom, why BP's problems hinge on oil and gas as much as renewables, and Exxon's new status as the (joint) top spender on "low carbon" amongst the big oil companies.

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 30 billion

Exxon's planned spending on "low carbon" up to 2030, placing it joint top amongst the big oil companies.



Oil and gas in the transition

Tumbling oil prices fail to push up demand

As I write this, oil prices are hovering near [USD 60 a barrel](#), with this month's prices the lowest since the pandemic. The nose dive in price is partly driven by weakening demand expectations, exacerbated by the impact of [Trump's tariffs on global economic growth](#), and OPEC+ deciding to boost supply in May by [three times](#) the amount previously planned. Prices this low will put huge pressure on producers' finances and lower investment in drilling. Low oil prices should, the theory goes, lead to more demand - but such a rebound remains elusive. Instead, the oil market is now [forecast to have the biggest excess of supply this century](#), outside of the pandemic.

Could US production fall?

Rystad Energy estimates that many US oil companies [need prices of USD 62 per barrel or more to break even](#), meaning current prices will already be putting them under financial pressure. If oil prices drop further, to USD 50 a barrel, production could fall by as much as 8% in a year, according to S&P Global Commodity Insights. One reason that production could fall so quickly is the short lifecycle of US shale production - projects can start quickly, but also run out much more quickly than more traditional projects, which can operate for decades. According to Wood Mackenzie, [the 'Lower 48' \(all US states bar Alaska and Hawaii\) need to add new supply equal to Norway's annual output each year](#) just to maintain production.

Alaska LNG: geopolitics vs prices

Trump's National Energy Dominance Council is planning [a summit on the proposed USD 44 billion Alaska LNG project in early June](#). The summit aims to secure financial support from Japan and South Korea for the project, which would see gas extracted from Alaska's North Slope and piped 800 miles across the state to an LNG terminal on the Pacific coast, for both domestic use and export to Asia. The summit will be a key test of what is more important to Japan and South Korea - relations with the Trump administration or project economics. The idea of an Alaskan LNG project [has been around for nearly 30 years](#) without getting off the starting blocks, as it is seen as being prohibitively expensive. Yet with investment in the project one of the few bargaining chips Japan and South Korea hold in trade negotiations with the US, it's not impossible they may decide the price is one they must pay.

US goes it alone in failing to back renewables for energy security

At the International Energy Agency's recent energy security summit in London, the [US stood alone in not backing clean energy](#), instead pushing for more reliance on oil and gas. UK Prime Minister Keir Starmer and European Commission President Ursula Von Der Leyen were unequivocal: [homegrown clean energy is the route to achieving energy security and reducing consumers' bills](#).

China's domestic oil and gas boom

[Oil production in China has reached an all-time high](#), placing it joint fifth in the world alongside Iraq and behind only the US, Saudi Arabia, Russia and Canada. Yet with domestic oil consumption dropping last year, [China's drillers are focusing more on gas](#) - with gas production set to exceed that of oil this year. China's domestic production boom, driven by a desire to rely less on fossil fuel imports, serves to add to the huge glut of oil and liquefied natural gas (LNG) that is set to push down prices for the fuels worldwide.

In April, China's [imports of LNG were predicted to fall 20% on the previous year](#), which as the world's largest LNG buyer, has a big impact on the global market. In the same month, it was reported that China has [stopped importing US LNG](#), following the start of the recent trade war.

Groundbreaking global carbon tax on shipping

In a triumph of multilateralism, [countries around the world have agreed a "first ever" global tax on greenhouse gas emissions \(GHGs\) caused by shipping](#), making it the only industry to have agreed internationally mandated targets to reduce emissions. Or, to be a bit more balanced, in a very rare display that multilateral climate diplomacy isn't dead, a majority of countries have agreed a tangled compromise that will tax shipping emissions above a certain threshold. The money raised will be spent on promoting "zero and near-zero emission fuels", and will certainly put the brakes on shipping industry oil demand, even if it falls far short of the Paris goals. [Carbon Brief has all the details](#).

Around the world

- **Russia's** oil industry is proving resilient to Western sanctions, with [producers drilling wells at the fastest rate in five years and a third above pre-war levels](#). This means that Russia's oil production capacity remains virtually unchanged from 2016. The country has seen a significant drop in exploration drilling, driven by lack of access to specialist technology and by uncertainty around future global oil demand.
- **Mexico** is [considering allowing a significant expansion of domestic fracking](#) as it seeks to reduce reliance on the US, which currently provides 70% of the country's gas supply. Mexico holds the sixth-largest shale gas reserves in the world, but there are splits in the government over whether to allow an expansion of the controversial drilling technology.
- The long-delayed **Tanzania** LNG project is now aiming for a decision before October 2025. [The USD 42 billion project reportedly stalled over negotiations between the government and the project developers](#) Shell, Equinor and Exxon. Key outstanding issues include the government's requests for a share of the

gas to be reserved for domestic use and for the developers to work with local companies.

- [Trump has resumed his “maximum pressure” campaign](#) against **Venezuela’s** Maduro regime, scrapping sanctions exemptions for Chevron, Eni, Repsol, [Shell and BP’s](#) operations in the country. The withdrawal of international oil companies could see the country’s oil production fall to about 100,000 barrels per day, a huge drop from the 2.5 million barrels per day it pumped out in 2016.



Energy transition strategies

Oil companies under pressure, but not from investors

We are now in company AGM season, and [the world’s largest oil companies are facing what are set to be their worst results since the pandemic](#). The income of the five biggest Western oil companies fell by about USD 90 billion from 2022 to 2024, and oil prices this year are set to be around a fifth lower than last year. As a result, upstream spending on producing oil and gas is expected to drop for the first time since 2020.

While the market holds its feet to the fire, investors aren’t doing the same. Dutch group Follow This, which has been at the forefront of shareholder activism for years, [is not filing any climate resolutions against companies this year](#). [Exxon is set to face no shareholder proposals](#) (or any issue) for the first time in 25 years. Possibly not a surprise, given Exxon sued one of its own shareholders last year to stop them from filing proposals. No one wants to go to court against a company with pockets as deep as Exxon’s.

BP’s oil and gas is the problem

When BP’s [corporate strategy came under fire](#) from activist-investor [Elliott Investment Management](#), it responded by expanding oil and gas production and shifting away from renewables. But it turns out that oil and gas is as much of the problem as anything else.

Elliott Management, now one of the company’s biggest shareholders, isn’t happy with the new plan either. Rather than growing its oil and gas business, the investor wants BP to focus on increasing free cash flow - returning money to its shareholders. The FT reports that [Elliott believes that the company should “cut spending across its oil and gas business because its future oil resources are sufficient.”](#) The investor’s view is that

BP's problem isn't about whether the company should focus more on oil and gas against renewables, rather that the company has done a bad job of running its projects and has let costs run up. As if to underline BP's oil and gas troubles, [the company reported a 48% drop in profit as a result of weaker gas trading and refining results](#).

Now the [chair of BP's board is set to go](#), as well as the [head of strategy](#) who oversaw the previous focus on reducing oil and gas production. The company is touting [new gas fields](#) to show its determination to refocus on its core business, while cutting its [low-carbon mobility team](#). Yet BP was hit with [the biggest protest vote of any FTSE 100 company](#) in the last five years, and [its ability to maintain its crucial share buybacks are at risk](#) from low oil prices. BP doesn't seem to be getting the message, and is a very long way from being out of the woods yet.

How TotalEnergies avoided a strategy u-turn

A useful FT deep-dive explores how [TotalEnergies' transition strategy survived](#) while peers like BP and Shell dramatically u-turned on their climate plans. According to the analysis, TotalEnergies' strategy success is due to its plan to expand, rather than reduce, oil and gas production to finance its transition spending, and its focus on electricity generation as a whole rather than purely renewable energy. While the company might not have u-turned, it is far from heading the right direction, and was [recently given an 'F' grade by Carbon Tracker](#) for its climate efforts - the same score as Saudi Aramco.



Clean energy investments

In what may come as a surprise to many readers, [Exxon is set to become the joint-top spender on "low-carbon" energy of the oil majors](#), alongside TotalEnergies. The company, often thought of as an oil and gas stalwart with little interest in the energy transition, has committed USD 30 billion to "low emissions opportunities" before 2030. This puts Exxon ahead of BP and Shell, which have recently significantly reduced their clean spending plans. Unlike European oil companies' focus on renewables, Exxon's "low-carbon" spending concentrates on lithium extraction, CCS, biofuels and hydrogen. This month, [Exxon won a regulatory battle against Occidental Petroleum for the rights to extract lithium in Arkansas](#), a project which, if successful, stands to benefit from the Trump administration's efforts to increase domestic production of the critical mineral.

[Equinor is considering legal action against the US government](#) over its decision to halt construction of the Norwegian company's USD 4.5 billion wind farm off the New York coast. US interior secretary Doug Burgum demanded Equinor halt construction of the wind farm, which is 30% complete, in April as part of the Trump administration's efforts to curtail the US wind sector. If built, the project could supply electricity to around half a million homes in New York.



Carbon Capture and Storage

In Europe, the UK and Dutch governments are throwing their weight behind CCS. The [UK government and Italy's Eni have given "the final go-ahead"](#) for a project to transport and store carbon dioxide off the coast of Liverpool. The pipeline is a key part of HyNet North West, one of two CCS clusters set to receive almost GBP 22 billion from the UK government. [The Dutch government has stepped in to provide EUR 639 million to the country's largest CCS project](#), after TotalEnergies and Shell chose to withdraw some of their planned investments. The decisions come in the context of the companies' cutting their 'low carbon' spending; neither TotalEnergies nor Shell responded to Reuters' request for comment on the decision to withdraw finance from the project.

[Japan and Malaysia are reportedly close to securing a deal](#) for the export of liquified CO₂ from Japan for underground storage in Malaysia. Japan considers carbon dioxide export essential to meeting its climate goals, even though the technology has not been proven at scale. It remains to be seen if the thorny details of the deal can be agreed, including who will be responsible for the long-term monitoring of carbon storage sites for leakage - a task spanning hundreds, if not thousands, of years.

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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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