

Reviewing the energy transition strategies of global upstream players

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Global climate policy efforts continue, albeit at shifting paces year by year

- **COP27**
 - Scaling back
 - Phase out *and rationalise*
- **COP28**
 - “transitioning away from fossil fuels”
 - Phase down rather than phase out



Driver - Regulations and reporting requirements

- Regulations affecting both O&G companies and customers
- Disclosure standards are evolving, but differently across the globe



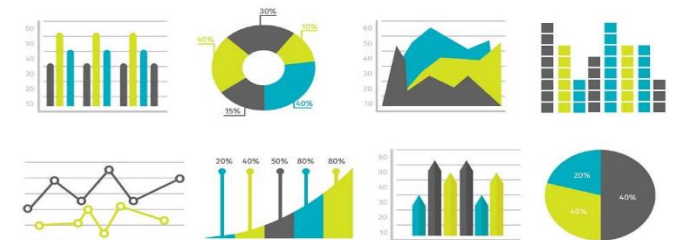
US aims to dramatically expand EV fleets with tough new emissions rule

EPA announces its 'most ambitious pollution standard ever' for cars and trucks



Manufacturers such as Tesla, which only make electric cars, are poised to benefit the most from the new proposal in the short term
© Bloomberg

Source: FT (<https://www.ft.com/content/5ac09cc2-e221-426d-b017-6fc589547c5c>)



The challenge of reporting and disclosure requirements

- The complexity of disclosure requirements and creating uniformed standards
- Pressure of presenting good results and complying with regulatory standards



Global tangle of climate disclosure rules risks causing 'reporting fatigue'

Companies urge flexibility to ease the compliance burden of new but differing requirements



Climate disclosure: the US Securities and Exchange Commission has yet to finalise its reporting requirements © Al Drago/Bloomberg

Source: FT (<https://www.ft.com/content/5ae57e78-ae29-42ea-837b-aaa1133819d2>)



Driver – Political pressure & incentives

- Demand for LNG and LNG being positioned as a transition fuel
- Inflation Reduction Act



LNG demand to surge 50% by 2040 in clean-fuel transition, forecasts Shell

Switch from coal by China and other Asian countries will drive increase, says report



Like many other energy majors, Shell is keen to position natural gas as a transition fuel as the world aims to decarbonise © VCG/Getty Images

Source: FT (<https://www.ft.com/content/e3d2ad34-0a3a-4db8-84d7-bb1efaa97cf8>)

Driver - Making commitments and sliding commitments

- O&G companies committing to:
 - Net zero trajectory
 - RES investment
 - OGCI's Aiming for Zero Methane Emissions Initiative
 - Operational decarbonisation
 - Investment in CCUS and H2 to green fossil fuel supplies



Challenges for the transition

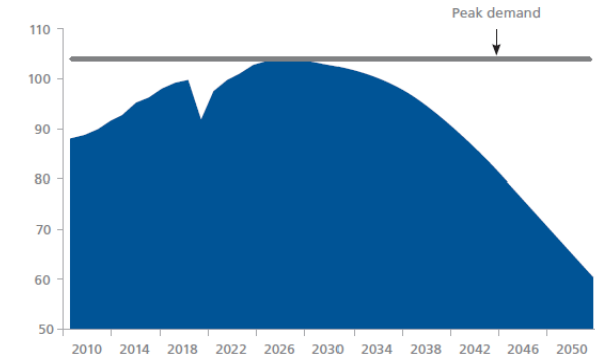
- Increased demand for O&G
- Profitability
- Changing investor views on ESG



Different strategies taken by oil majors and why

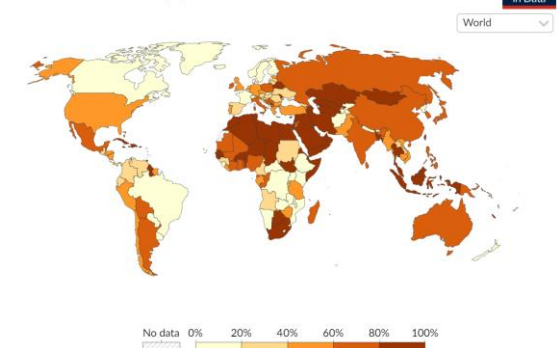
- Three key models:
 - Diverse portfolio
 - Core focus
 - National Champions
- The following factors influence oil & gas majors differently around the globe:
 - Regional current and future demand for oil and gas
 - Political influences and changing priorities
 - Topography and available natural resources
 - Historic asset base and investment focus

Global oil consumption, 2010–2050 (billions of barrels per day)



Sources: BP and Capital Economics forecasts beginning in 2022

Share of electricity production from fossil fuels, 2022



Source: Ember's Yearly Electricity Data; Ember's European Electricity Review; Energy Institute Statistical Review of World Energy
OurWorldInData.org/energy • CC BY

Diverse portfolio

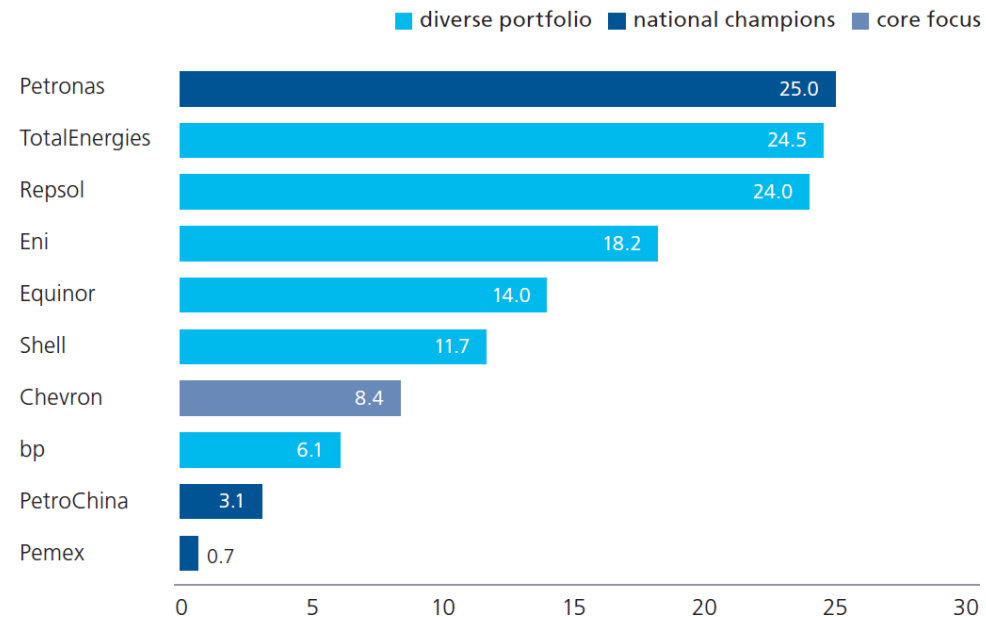
- Investment directed in diversification of projects and technology – e.g.:
 - BP pays £254mn to take full control of solar joint venture Lightsource
 - Equinor - 50 percent of its gross CAPEX investments allocated to transition by 2030
 - Shell has more than doubled its solar and wind generation within its portfolio in 2022
- A clearer path needs to be carved going forward which takes into account energy demand, security and sustainability



Challenge for the diverse portfolio - Allocation of CAPEX

- Security/affordability of O&G projects
- Balancing CAPEX to confirm with the energy transition and meet future demands for renewables
- O&G companies' own trilemma:
Profitability vs Future Resilience vs Uncertainty
- Risks – acquisitions of radically different businesses

Share of total CAPEX spent on renewables and/or low carbon activities in 2022 (%)



Sources: Capital Economics, company reporting

Core focus

- Focusing on the wants and needs of their customers – now and in the future
 - Investment focused on biofuels and technologies which reduce emissions in the value chain
- Need to maximise production and profitability in order to satisfy shareholders
- Pragmatic approach – focusing on reducing carbon emissions within existing value chain
- Utilise existing incentives and call for further government initiative



ExxonMobil

**ConocoPhillips**

National champions

- State-owned entities whose oil and gas production, as well as climate ambitions, are largely influenced by their government's decisions
 - Key exporters such as Saudi Aramco adjust oil production in accordance with OPEC's and Saudi Arabia's decisions
 - Allows for monetisation of their countries' respective resources and responding to the markets they serve
- Adopting net zero strategies to the extent permitted by their government's policies and commitments
- Engage in political conversation – both national and international





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